

FINANCIAL TIMES

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D 8523 B

Mitterrand's nuclear dilemma, Page 14

World news

Business summary

EEC to seek car exhaust accord

EEC environment ministers meet tomorrow in an attempt to reach agreement on a consultation of new strict standards on car exhaust emission.

Italy, holding presidency of the Community, hopes that the meeting will produce a limited agreement or perhaps a declaration of principle on the divisive issue.

West Germany wants to encourage the purchase of cars with catalytic converters through a system of tax incentives starting in July, while Italy, Britain and France favour a longer-term approach.

Iran shells city

Iran shelled the southern Iraqi port city of Basra for 45 minutes after warning it would retaliate for alleged attacks on civilian targets in Iran. An unspecified number of casualties were reported.

Korea eases clamp

The political ban on Korean dissent, which has been in force since last month from U.S. exile, and 13 other government critics will be lifted.

China cuts army

China's army will retire 47,000 ageing army officers in the next two years as part of an overall plan to modernise and reduce staff.

Sikhs summon

Sikh high priests summoned India's Agriculture Minister Bala Singh to the Golden Temple in Amritsar to face punishment for what they called an offense against their religion.

Indian elections

Twenty-two people were killed in outbreaks of violence during the second and final day of Indian state elections, in which Prime Minister Rajiv Gandhi's party holds a clear lead.

Mengele hunt

Chancellor Helmut Kohl will ask Paraguay President Alfredo Stroessner when he visits West Germany in July to help hunt down Nazi war criminal Josef Mengele who is believed to be living in the South American country.

Yugoslav extradited

A Los Angeles magistrate ordered the extradition to Yugoslavia of 65-year-old Andrija Arukovic, accused by Belgrade of complicity in the wartime execution of 770,000 people.

Minister resigns

Philippines Labour Minister Blas Ople resigned from the cabinet of President Ferdinand Marcos, a day after Foreign Minister Arturo Tolentino was sacked.

Catholic finances

A group of Roman Catholic cardinals began talks aimed at finding a solution to the church's financial problems.

Italian fugitive held

Francesco Pazienza, wanted in Italy on fraud and misappropriation charges relating to the collapse of Banco Ambrosiano, was arrested in New York.

Tanker in flames

An Argentine tanker carrying 1,200 tonnes of petroleum by-product burst into flames in the River Plata estuary near La Plata killing five crew members.

Soviet crime sweep

Soviet Interior Minister Vitaly Fedorchuk urged tough action against crime and corruption at a meeting of senior members of the country's law and order authorities.

Pentagon probe of General Dynamics

U.S. DEFENCE Department has temporarily suspended its payments to General Dynamics, the country's biggest defence contractor, while it investigates possible irregularities in billing the government.

Payments to the company have been halted for 30 days while an investigation is undertaken which will include possible criminal activity.

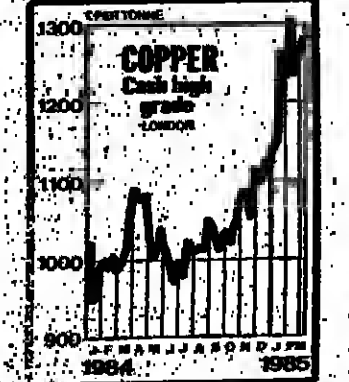
NATIONAL WESTMINSTER. Britain's second largest bank, reported 30 per cent rise in pre-tax profit to £871m (£724.6m) in 1984. Page 17; Lex, Page 16; Details, Page 22

WALL STREET. At the close, the Dow Jones industrial average was up 2.32 to 1,291.85. Section III

LONDON shares finished firm with the FT Ordinary index up 2.1 at 982.0. Gilt recovered. Section III

TOKYO stocks closed lower. The Nikkei Dow market average shed 32.83 at 12,478.38. Section III

COPPER values rose on the London Metal Exchange, although reports from Chile suggested that disruption of supplies following the weekend earthquake might not be as serious as originally feared. Cash high grade copper gained £15 to £1,283 a tonne, chiefly reflecting sterling's renewed weakness against the dollar. Page 38



DOLLAR was firm in London, rising to DM 3.4335 (DM 3.376), Sfr 2.924 (Sfr 2.893), FF 10.465 (FF 10.315), and ¥261.0 (¥258.95). On Bank of England figures, its index rose to 155.8 from 154.4. In New York, it closed at DM 3.43925; Sfr 2.925, and ¥261.2. Page 37

STERLING was weaker against the dollar in London, falling 1.3 cents to close at \$1.0555. It improved, however, to DM 3.8225 (DM 3.8), Sfr 3.0875 (Sfr 3.085) and FF 11.0375 (FF 11.025) but eased to ¥275.25 (¥277.0). The pound's exchange index fell to 70.8 from 70.9. It closed in New York at \$1.0535. Page 37

GOLD fell \$0.50 an ounce on the London bullion market to close at \$288.00. It also fell in Zurich to \$288.25. In New York, the April Comex Settlement was \$287.90. Page 38

HARRISON AND CROSFIELD, British plantations and chemicals group, raised its bid for animal feeds maker Paul's to a "final" £113m (£119m) and bought another 18 per cent of Paul's shares in the London stock market.

SASOL, the South African oil-fuel producer, sharply increased its first-half operating income to R513.4m (\$247.3m) from R282.8m for the same period in 1983. Page 19

ELECTROLUX, the Swedish domestic appliance group, is to buy Beijer Bygghus, a local building materials company with sales of about SKr 1.5bn.

NORTHEASTERN International Airways, a small U.S. airline, has been ordered to return its four Boeing 727s because it cannot repay \$1.3m in debt to an aircraft leasing firm.

CITIBANK, Brazil's leading creditor, has started legal proceedings against 11 Rio sugar and alcohol mills to recover overdue loans.

WORLD BANK is considering the launch of a short-term borrowing programme in sterling instead of dollars. Page 28

U.S. and UK companies study role in South Africa

BY MICHAEL HOLMAN, AFRICA EDITOR, IN LONDON

MAJOR companies from Britain, the U.S. and South Africa are to hold an unprecedented two-day conference in the UK tomorrow to discuss the part they can play in the reform of apartheid.

The conference, at Leeds Castle, Kent, will be chaired by Mr Edward Heath, the former British Prime Minister, and the opening address will be given by the Rev Leon Sullivan, who helped to frame a code of conduct for U.S. companies operating in South Africa.

The voluntary code seeks to extend the rights of black workers and is considerably tougher than that drawn up by the EEC. Discussion at the closed conference may

include ways in which both codes could be further strengthened and be more closely monitored.

The meeting takes place at a time of almost continuous political unrest in South Africa, a key factor in the growth of an increasingly powerful lobby in the U.S. agitating for corporate disinvestment, which is backed by Senator Edward Kennedy, who visited the republic recently.

The strength of the lobby last week prompted the South African Government to set up a special department in the Ministry of Foreign Affairs to co-ordinate a counter-campaign.

Companies invited to Leeds Castle include Mobil, Caltech, General Motors, Control Data and Merck from the U.S. and Shell, BP, GEC, Barclays and Rio Tinto Zinc from Britain. Sir Peter Baxendale, chairman of Shell, and Sir Alistair Frame, chief executive of Rio Tinto Zinc, are among the senior executives expected to attend.

The South African participants include representatives of some of the Republic's leading companies, who have led calls for far-reaching reforms to South African society, including an end to racial job reservation and the enforced removal of blacks from "white" areas.

Mr Mike Rosholt of Barlow Rand, Mr Tony Bloom of the Premier Group, and Mr Basil Herscov of Anglo Vaal are expected to assess the implications of recent events in South Africa. A keynote talk by Mr Rosholt, chief executive of one of the country's largest publicly quoted companies, will be on "the role of business in working towards justice through the political process."

The agenda also includes an address by Mr Jan Steyn, chairman of South Africa's Urban Foundation, a business-funded organisation seeking to improve urban black living conditions.

Other contributions will come from U.S. participants. At least one observer from a leading Swedish company will be present.

Neither Mr Heath nor Mr Sullivan were prepared to comment last night. In a visit to Johannesburg in 1981, Mr Heath infuriated conservative whites when he warned that "the longer the bondage of blacks lasted, the more likely they were to turn to an armed struggle which the Soviet Union is only waiting to sponsor." Meaningful change, he told his audience, required acceptance of the principle of one man, one vote.

South African President P. W. Botha announced cuts in civil service pay and conditions aimed to reduce government spending by R500m (\$1036m) during the current fiscal year.

Ragged return by Britain's striking miners

By John Lloyd, Industrial Editor in London

BRITISH MINERS, returning to work yesterday after a year-long strike, found a tougher management, their old jobs reallocated in many cases to working miners and at some pits the familiar picket lines.

The National Union of Mineworkers had planned an orderly return to work, but this was ragged in Scotland and north-east England, largely a failure in Yorkshire and non-existent in the little Kent field in south-east England.

The picket lines were manned by Kent and Scottish miners demanding an amnesty for all of the 718 miners sacked during the strike. Those two regions have refused to return to work until this is achieved. The National Coal Board and the Conservative Government have insisted that some miners, convicted of serious offences, will never be rehired and that other cases will be decided on an individual basis.

Half of Yorkshire's 49,500 miners were reported not to have turned up yesterday. Where they returned in formation, sometimes behind bands, they were often turned back because they had missed the morning shift where they were not stopped by pickets.

Mr Arthur Scargill, the union's president, led 1,000 men back to one Yorkshire pit - and then led them back again after meeting a picket line.

The Scottish union today will reassess its decision to remain on strike. A further 700 "new faces" returned to Scottish pits yesterday, bringing the proportion at work to 56 per cent of the region's 12,400 miners.

In other areas, returning miners complained that their shift times had been changed and were sent home. At another pit, former strikers and working miners confronted each other in the works canteen.

Evidence from men returning to work suggests that managers are losing little time in bringing them under pit discipline, and in moving them from previous jobs to other tasks where the previous jobs have been taken by returning miners.

The coal board is carefully watching the position in the three-pit Kent coalfield, where most of the 2,000 miners remain on strike.

Mr Peter Walker, the Energy Secretary, meanwhile echoed a line floated two months ago by Mr Ian MacGregor, the coal board chairman, when he said that he favoured workers' co-operatives, or management ventures in pits.

Coal board plans reshuffle, Page 6

Dollar surges close to record levels

BY PHILIP STEPHENS IN LONDON AND STEWART FLEMING IN WASHINGTON

THE DOLLAR surged on foreign exchange markets yesterday, pushing European currencies close to the record lows which sparked last week's heavy intervention by central banks.

It rose by 5.75 pfennigs against the D-Mark to close in London at DM 3.4335, while sterling lost 1.3 cents to end the day at \$1.0555.

The dollar was only fractionally below these levels when European central banks, led by West Germany's Bundesbank, launched a concerted attack on the U.S. currency last Wednesday.

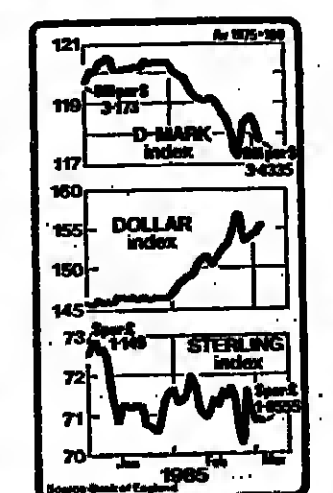
Last night it made further gains in New York, where it closed at DM 3.43925, with sterling weaker still at \$1.0535.

European central banks, backed by the Bank of Japan and to a much lesser extent by the U.S. Federal Reserve, sold at least \$3.5bn over three days.

Foreign exchange dealers reported, however, that although their action had made the markets wary of pushing the dollar up too fast, it had done nothing to diminish the underlying demand for the U.S. currency.

The relatively insignificant role in the intervention played by the U.S. Federal Reserve had also diminished fears that the central banks could engineer a decisive turnaround in the dollar's value.

Evidence that the Reagan Administration is once again toughening its stance against co-ordinated intervention surfaced yesterday when a senior U.S. official told a congressional committee that in the Treasury's view intervention has been both ineffective and destabilising in recent weeks.



The comments by Mr David Mulford, Assistant Treasury Secretary for International Affairs, were in time with recent remarks made by President Ronald Reagan suggesting that the U.S. should not run the risk of destabilising the dollar.

European central bank officials were also tacitly acknowledging yesterday that the dollar was little they could do so long as the dollar's latest rise was backed by strong fundamental demand.

The banks, however, were insisting that last week's dollar sales had not been wasted because they were not aimed at establishing any particular rate for the U.S. currency but at demonstrating to speculators that they could not always rely on profits from dollar investments.

Currencies, Page 37

Brazil in \$750m Soviet trade deal

By Andrew Whitley in Rio de Janeiro

BRAZIL and the Soviet Union have concluded a countertrade deal worth \$750m over four years. In return for foodstuffs and manufactured goods, including steel products and oil platforms, Petrobras, the Brazilian state oil company, is to increase substantially its liftings of Soviet crude oil.

The deal, which represents the largest single trade deal between the two countries, forms part of Brazil's continuing drive to boost sales to its oil suppliers through countertrade deals.

Negotiations have taken place over the past year and were broadly finalised last November, according to one of the Brazilian companies involved. News of the deal has been kept confidential, pending conclusion of the oil purchase arrangements.

Brazil recently signed a annually renewable agreement with Nigeria, which could be worth up to \$1bn, covering the provision of a wide range of goods in return for crude oil.

Similar agreements have been concluded with Angola and Iraq, and are being discussed with other oil suppliers, including China.

The most interesting element in the Soviet deal is the major role being played by a relatively small family-owned mining and civil engineering company, based in Sao Paulo state.

Continued on Page 16

Finnish countertrade deal, Page 4; Renault quits Soviet plant project, Page 16

Vickers da Costa chief to head UK investment regulatory board

BY JOHN MOORE, CITY CORRESPONDENT, IN LONDON

SIR Kenneth Berrill, chairman of British stockbrokers Vickers da Costa, is to be the City of London's new top regulatory authority for policing securities firms and investment companies.

Mr Norman Tebbit, the secretary of state for Trade and Industry, has asked Sir Kenneth to set up a Securities and Investments Board and invited him to be the board's first chairman.

Sir Kenneth, 64, was made a firm offer by the Government two or three weeks ago and will have a three-year contract. Sir Kenneth said yesterday that he "did not know" what salary would be offered.

"I am told by the Governor of the Bank of England, whose job it will be to determine the salary, that it will be market related," he has said. He will take advice from senior people in the City as to what that might mean.

"I am coming to do the job for a) a body which does not exist; b) for a body which has no money and c) for a salary which I don't know."

One of the highest paid officials in the City is Mr Ian Hay Davison, chief executive of the Lloyd's insurance market, who earns £120,000 (\$129,600) a year and that sort of salary is likely to be taken into account.

Mr Martin Jacobson, vice chairman of Kleinwort Benson, the merchant bank, has been appointed a part-time deputy chairman of the new body. Mr Jacobson is understood to have turned down the job of chairman. He will remain a vice chairman of Kleinwort Benson, but will relinquish his job as deputy chairman of both the Panel on Takeovers and Mergers and the Council for the Securities Industry.

Sir Kenneth headed the Central Review Policy Staff, a Government "think tank," between 1974 and 1980. He has also been head of the Government Economic Service and chief economic adviser to the Treasury.

As chairman of Vickers da Costa Sir Kenneth has steered his firm into a link with Citicorp of the U.S., the world's largest banking group.

He is also one of the three ruling independent members of Lloyd's ruling council, an appointment endorsed by the Bank of England.

In the City yesterday some stockbrokers expressed surprise at the appointment. He was described as being "intellectually brilliant" but some doubt was expressed as to whether he had sufficient experience of the workings of the City.

One former Lloyd's council member said: "He doesn't speak often but when he does he speaks intelligently. He is a reasonable man who does not have much in common with the one or two hawks on the council."

Sir Kenneth expects that there will be 10 or 12 part-time board members on the new regulatory body, including investment practitioners, City people and others.

"It is going to have to be something which will start small and then grow in order to cope with the unknown volume of business when it is in full operation."

Men and Matters, Page 14; Lex, Page 16

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EUROPEAN NEWS

Why Finnish fur is flying high

By Kevin Done, Nordic Correspondent, recently in Vaasa

FINNISH FUR farmers labouring through the long, cold winter on the frozen plains of Ostrobothnia in western Finland are watching with undisguised relief as fur prices at the Helsinki auctions finally clamber back to levels where they can again make a respectable living.

The Furs are the leading supplier of furs to the world market, providing no less than 67 per cent of all fox furs and around 16 per cent of mink pelts.

Over the last decade Finnish producers have stolen a march on the rest of the fur world developing an unrivalled grip in particular on the production of fox furs and easily outstripping their rivals in Scandinavia, Poland and the Soviet Union.

Since 1975 world production of blue fox furs has climbed from 955,000 skins to around 2.7m. In the same period Finland has raised its own production from 400,000 to 1.8m. With the addition of 4.4m mink pelts Finnish fur farmers have built an industry with export earnings of some Fmk 1.4bn last year and perhaps Fmk 2bn in 1984-85.

Just over a year ago it appeared that the bubble had finally burst. At the December 1983 auctions fox fur prices plummeted to a record low and Finnish farmers—many burdened by ambitious new investments—were forced to cut output to try to boost prices. "Everyone was afraid there could be a catastrophe for fox furs," says Mr Roger Nyback, managing director of Oy Keppo Ab, which runs the world's highest fur farming operation from Oravais in western Finland. "We cut production by about 20 per cent in 1983 to try to get world prices up."

Helped by the strength of the U.S. dollar and the recovery of the world economy the strategy is working. The Finnish fur industry has won sufficient confidence and size over the last decade to enable it to shift its international auctions to Helsinki and away from Copenhagen.

More than 500 buyers from around the world turned up for the independent Helsinki auction in January. With purchases worth more than Fmk 600m they created the world's biggest fur auction to date, overshadowing Copenhagen and pushing prices steeply upwards.

"In the 1982-83 season there



was a crisis in the fur producing industry," said Mr Johan Wallin, marketing manager of Finnish Fur Sales, a company owned co-operatively by the country's more than 5,600 fur farmers. "Prices were below production costs. With those prices the industry would not have survived."

"Production has not been increased, however, the market has improved, and there has been a quick recovery. They are not super profits, but the farmers can make normal returns again."

The soft-fur lobby has made no impact on sales, at least from the Helsinki auctions, says Juhani Moisanen, managing director of Finnish Fur Sales. Opposition to the fur business is much harder to find in Scandinavia than in the UK or some continental European countries. The Fur Auction Centre has seen none of the demonstrations witnessed in London, but he admits that continued large-scale actions could eventually hit the international fur trade.

"It is so easy to manipulate people in the cities," says Mr Moisanen. "They have never seen a cow or a horse. People here live more closely to nature, they understand that we have a very cold climate, they are used to handling animals, they know how they are looked after and how they are killed."

For the moment, according to Mr Wallin, "demand is coming very much from the U.S. More money is being spent on furs and the business climate is in our favour again. Attitudes have changed. People are buying furs again; it is acceptable

to wear a fur jacket; people don't all have to look the same any more."

With fur back in fashion and more money available, blue fox furs were fetching Fmk 383 per skin in Helsinki last month compared with Fmk 234 in December 1983.

Buyers from Italy, Greece and Spain have all been more active, but it is the Far East that has emerged as a mainstay of Finnish fur sales alongside the U.S. Japan took 16 per cent of fox sales in 1983-84 and South Korea 12 per cent, while Hong Kong accounted for 13 per cent of Finnish mink sales.

For the foxes and mink moving agitatedly around their cages—for much of the winter in fiercely sub-zero temperatures—on the farms of western Finland, life is short. The breeding animals are paired in March, the cubs are born in April, and after they are slaughtered and the pelts prepared for the December and January auctions. The skinned animals are recycled with other offal for next year's feed.

The fur farming industry is concentrated to an extraordinary extent in the single western province of Vaasa along the coast of the Gulf of Bothnia. Some of the farming is done on an industrial scale by companies such as Keppo, which alone produces around 350,000 mink and 90,000 fox skins a year, but most of the farms are small family affairs. The average farm produces around 1,600 pelts a year, about a third of which are fox furs. Farmers' willingness to pool

their resources has contributed to the industry's recent growth. Through regional co-operatives they have formed a jointly-owned breeders' association which provides schooling, veterinary, insurance and financial advice and carries out joint research into improved breeding techniques and feed analysis.

The farmers own Finnish Fur Sales, which arranges the auctions, advance financing and common marketing. They own Ostrobothnia Fells, which acts as a purchasing company for feed and equipment and they operate around 50 big central feed kitchens.

Scores of small engineering groups have sprung up to supply specialised plant and equipment, and the industry is confident that with such a concentration of know-how and several decades of experience they can stay ahead of the growing competition emerging in countries such as the Netherlands, Poland, France and potentially China. Especially high prices are being won for new shades of fur based on fox breeding mutations.

Finnish fur producers have one important Achilles' heel, however. Production of animals has now surpassed domestic supplies of feed—the industry's raw material. A subsidiary of Ostrobothnia Fells has been established in Fraserburgh in north-east Scotland for the freezing and storage of fish offal to secure new supplies; large amounts of fish offal are imported from northern Norway, slaughter offal comes from Sweden and Denmark and fish offal from the Soviet Union.

"Mink output has reached a ceiling in Finland," says Roger Nyback. "We are not very competitive especially with Denmark, their fish and slaughter offal is 10-20 per cent cheaper."

Small farmers must live with the higher feed prices, but industrial farmers such as Keppo have already abandoned any idea of expanding in Finland. In the early 1980s Keppo started farming mink in Ireland to gain access to new feed supplies, and since 1980 it has been farming Norwegian blue foxes south of Dublin. "Denmark, Canada or France will be where the next expansion of fur farming takes place," says Nyback. "Ireland is today a more profitable operation than Finland."

Opec's output exceeds ceiling

By Dominic Lawson in London

THE ORGANISATION of Petroleum Exporting Countries (Opec) produced 16.3m barrels of oil a day last month, breaching its official monthly production ceiling of 15m b/d, according to the International Energy Agency monthly oil market report, published yesterday.

However, the IEA report notes that Opec production was only 15.4m b/d in January, and that if March production is similar to February's the average production in the first quarter would be in line with the 15m b/d official ceiling.

On the demand side, the IEA report makes gloomy reading for oil producers. The IEA has reduced its oil consumption estimates. Oil consumption by countries in the Organisation of Economic Co-operation and Development (OECD) in the current quarter will be 1 per cent lower than in the same period in 1984, the report estimates.

This drop in consumption is predicted even against the background of a relatively cold winter in Europe and additional fuel oil demand resulting from the UK miners' strike.

The report said that if it were not for the additional oil consumption due to the miners' strike, then first-quarter consumption of oil by OECD countries would have been about 2.5 per cent down on the comparable period. The IEA believes that the strike will have increased consumption of fuel oil by about 0.5m b/d in the first quarter.

Reports from member OECD countries suggest that their oil stocks will fall from 426m tonnes at the beginning of the year to 404m tonnes at the end of the first quarter. Based on forecasts of consumption this would be equal to 85 days of forward consumption. Stocks held by companies would be equivalent to 73 days, only three days more than the record low levels held in the OECD at the outset of a second quarter.

Reshuffle in Hungary's trade union

By Leslie Collitt in Berlin

A RESHUFFLE of the leadership of the official Hungarian trade union has taken place less than three weeks before the Hungarian Communist Party is expected to announce further high-level changes at its 13th congress.

Mr Lajos Mehes, the trade union's secretary-general since December 1983, was relieved of his post because of illness and replaced by Mr Tibor Baranyai, a member of the central committee. Mr Mehes, 57, could also lose his post as a member of the party's ruling Politburo.

Simultaneously it was announced that the post of union chairman was to be upgraded and that the secretary-general would be largely left with a bureaucratic function but little authority. The chairman of the Hungarian Trade Union Council is Mr Sandor Gaspar who was given this post when Mr Mehes took over. At that time it was widely believed that Mr Gaspar, 68, who is also a Politburo member, had been moved upstairs into a ceremonial post.

It is not clear, however, whether Mr Gaspar has now regained control of the union because his name was not mentioned in the announcement. He was long regarded as being less than enthusiastic about the economic reform programme which in recent years has led to a fall in recent wages. The reforms have been expanded this year to include greater wage differentiation and are to be endorsed at the party congress.

Gonzalez firm on Nato referendum

By Tom Burns in Madrid

SPAIN'S Socialist Government is determined to hold a referendum on the issue of continued membership of Nato and is increasingly confident of a vote in favour.

Sr Felipe Gonzalez, the Prime Minister, who announced his changed views on Nato at the end of last year, says he will campaign actively in the plebiscite in favour of continued membership. Last December, he succeeded in having the Socialist Party reject its former anti-Nato platform.

Although Sr Gonzalez and other Socialist Party leaders have consistently said that a referendum would be staged, a widely held view has been that it would be shelved. The idea of a referendum when they opposed Spain's entry into Nato under the previous Centre Party administration and it formed a key part in Sr Gonzalez's triumphal campaign in the 1982 general election.

Private airlines want navigational charges switched into Ecus

By PAUL CHEESBRIGHT in BRUSSELS

THE CONTINUING strength of the U.S. dollar has prompted private air companies in Europe to demand that navigation charges be billed in the European currency unit, the ECU, based on the weighted average of the ten's national currencies.

Any navigation charges have traditionally been billed in dollars through Eurocontrol, a multilateral collection agency run by governments.

Independent Air Carriers of the European Community which brings together private sector airlines and charter companies is to lobby Eurocontrol's consultative group on route charges. This group is made up of senior civil servants who meet privately but offer airlines observer status.

Members of the association contribute about 14 per cent of Eurocontrol's \$650m annual turnover from route charges. Eleven nations are part of the Eurocontrol charges agreement: France, West Germany, Ireland, Britain and the Benelux coun-

tries from inside the EEC, and Austria, Portugal, Spain and Switzerland from outside it.

The timing of their move reflects deepening concern about losses through currency fluctuations. These have been running at more than \$1m a month recently. It also signals the growing acceptance of the ECU as an instrument not only for bond investment but also for settling commercial transactions.

The problem for the companies is the delay in the receipt of a bill and its settlement. As the dollar has kept on rising, it has taken the cost of route charges with it.

Although Eurocontrol is sympathetic to the use of the ECU, its bills are sent all over the world. The airlines are still seeking to establish themselves outside Europe. North America and Japan, could be used as a pretext for the non-payment of bills, it is felt. At the same time, there is caution about the attitude of East European carriers.

Little chance seen of early accord on car pollution

By OUR BRUSSELS STAFF

QUICK RESOLUTION of the EEC's problems on settling strict new standards for car exhausts, to head off a potentially divisive move by West Germany, has evidently been ruled out by the Commission.

Sig Alfredo Biondi, the Italian Environment Minister, said yesterday he hoped to lead a meeting of environment ministers would produce a declaration of principle, with conclusions at a later meeting. His remarks came at the meeting held by the EEC's Economic and Social Committee, came against the background of:

● The known opposition of France and Britain to a limited agreement.

● The passage through the Bundestag of legislation to offer tax incentives from July 1 for the purchase of new cars meeting exhaust standards equivalent to those of the U.S. and Japan.

As West Germany has shown no willingness to back away from a rapid move to much tougher standards than either France or Britain, other countries are expected to contemplate, Sig Biondi's two-stage approach.

General seeks French 'star wars' system

By DAVID HOUSEGO in PARIS

A FRENCH general has proposed that France should prepare to protect its major cities and missile silos against nuclear attack through development of "star wars" systems, said a spokesman for President Ronald Reagan in the U.S.

The general, writing anonymously in Le Monde newspaper, suggested that France should co-operate with other European nations on research into a European version of the U.S. Strategic Defence Initiative (SDI).

French officials described the ideas as "fantasy" not least because of the immense cost involved. French defence funds are already committed heavily in advance to the modernisation of the country's nuclear arsenal. In addition, both Britain and West Germany have spoken of their interest in co-operating with the U.S. in any industrial spin-off that could come from research into anti-satellite systems.

The article does, however, imply a tentative beginning to a defence debate on the implications for the French nuclear deterrent of SDI.

The French official view is that the development of "star wars" systems by the U.S. or the Soviet Union would not diminish the credibility of the French deterrent. French officials do not believe the SDI will be sophisticated enough to prevent all French missile silos getting through to Moscow or other major Soviet cities in the event of a French strike.

The French are, however, carrying out research to reinforce the penetration capacity of their nuclear warheads. They are also anxious for a European approach to satellite technology.

The general goes much further than this in arguing the need for Europe to have its own anti-satellite systems in the year 2010 when the number of nuclear powers will have grown.

Cardinals discuss finances as Vatican's losses mount

By ALAN FRIEDMAN in MILAN

THE VATICAN is facing a record deficit of around L60bn (£27m) for 1984, a figure even higher than the L51bn forecast one year ago.

Concerned about the Holy See's losses over the past five years, the College of Cardinals is meeting for three days in Rome this week to discuss the Roman Catholic Church's finances. Aside from last year's deficit, the Vatican lost more than L40bn in 1983, L36bn in 1982, more than L30bn in 1981, L25bn in 1980 and L17bn in 1979.

The deficit is made up of losses at Vatican Radio, the Osservatore Romano newspaper and the administration of Vatican City itself. It does not refer to the Institute per le Opere di Religione (IOR), the Vatican Bank which has agreed to pay \$250m to the creditors of the failed Banco Ambrosiano group. The IOR's payment, which is being made "in recognition of

moral involvement" in the collapse of the late Sig Roberto Calvi's bank (which was missing \$1.3bn, when it failed in 1984), is a separate issue and does not affect the Vatican Bank's liquidity and has "forced" the bank, which is run by Archbishop Paul Marcinkus, to sell property assets and shareholdings.

Archbishop Marcinkus, who once served as the Pope's bodyguard, remains under investigation by Milan magistrates who are looking into charges of fraud in relation to the Ambrosiano collapse. The U.S.-born archbishop is also under separate investigation in connection with a 1972 Vatican loan to the late Sig Carlo Pesenti, the Catholic financier who was an Ambrosiano shareholder.

Kohl fights to preserve visit by Stroessner

By Rupert Cornwell in Bonn

CHANCELLOR Helmut Kohl seems determined to resist a mounting barrage of domestic and foreign criticism of the planned visit here in July of General Alfredo Stroessner, the German-born dictator of Paraguay.

Ever since the trip became public knowledge six weeks ago, the prospect that West Germany should be playing host to the longest serving military leader in Latin America has aroused much disquiet in Bonn, especially when democratic regimes have taken over in countries like Argentina, Brazil and most lately in Uruguay.

But the embarrassment has recently acquired a new intensity as international pressure has mounted for a last effort to be made to bring to justice the most notorious Nazi war criminal still at large.

Mengele, whose gruesome experiments at the Auschwitz extermination camp in southern Poland earned him the sobriquet "Angel of Death," is known to have taken refuge in Paraguay for many years after the war.

Although the Government in Asunción maintains he is no longer in the country—some reports have it that he is dead—this is contradicted by others, including the leading Nazi hunter Mr Simon Wiesenthal.

A French newspaper yesterday claimed direct evidence that Mengele, who would now be 72, was living protected by bodyguards near the north Paraguayan town of Filadelfia. The world-wide re-emergence of the case, prompted by the 40th anniversary celebration of the liberation of Auschwitz by the Russians, has only added to the discomfort of West Germany, as it prepares to commemorate the final defeat of the Third Reich on May 8.

None the less, Herr Kohl plainly believes the Mengele affair constitutes no grounds to call off the Stroessner visit—whatever the misgivings signalled by both Herr Hans Dietrich Genscher, the Foreign Minister, who will be conspicuously abroad at the time, and President Richard von Weizsäcker.

The Chancellor told the cabinet yesterday that it was wrong to pick on small nations whose regimes might be offensive, while dealing perfectly normally with larger countries, run on equally totalitarian lines.

His view is that the visit would be a good opportunity to press for wider observance of human rights and a return to democracy in Paraguay. Government spokesmen also point out that 200,000 ethnic Germans live in the country, including 60,000 with German passports.

But the arguments have notably failed to impress not only the left-wing opposition here but also the liberal Free Democrats within the centre-right coalition. The suspicion is strong that the trip has been heavily promoted by the Right, notably Herr Franz-Josef Strauss, Prime Minister of Bavaria, which the Paraguayan leader will be visiting.

Meanwhile, Mengele's family, who run a small agricultural machinery plant at Günsburg in Bavaria, yesterday angrily denied allegations that they had been secretly sending him funds through a Swiss bank account.

Sympathy strikes illegal

BONN — West Germany's Federal Labour Court declared sympathy strikes illegal yesterday and said that only those employees directly involved in a dispute might take industrial action.

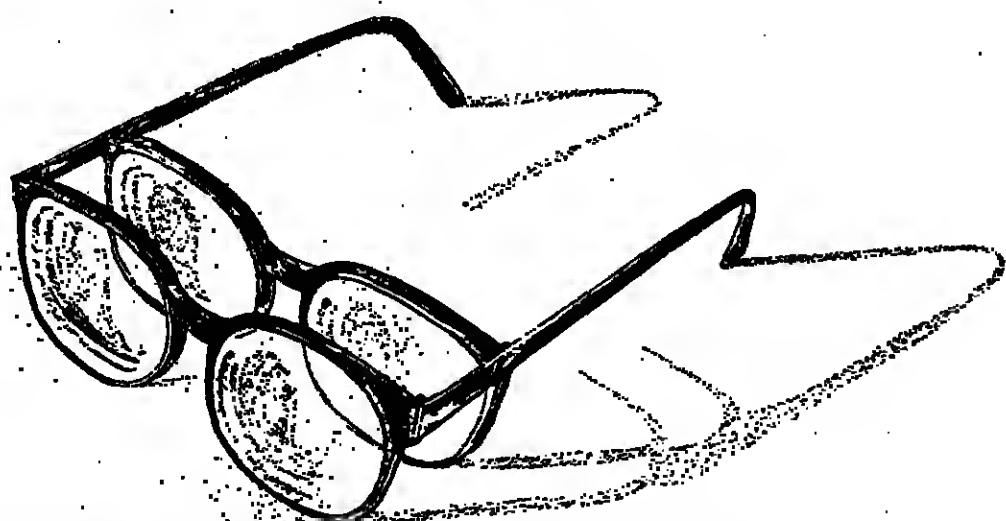
In a ruling based on a walkout by printworkers in support of striking colleagues in 1981, the court said a business not connected with a dispute must not suffer strikes. It declared that sympathy strikes were therefore "fundamentally illegal" but added that there could be exceptions if it could be shown there were close links between the enterprises involved.

Lawyers for West Germany's printworkers' union argued against the ruling in court, saying that since 1945 regional labour courts had repeatedly declared sympathy action legal.

The number of sympathy strikes in West Germany has been small in comparison with countries such as Britain or the U.S.

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3

Strong China a check against war, says Deng

By MARK BAKER IN PEKING

DENG XIAOPING, the Chinese leader, said yesterday that strength through modernisation could give China the ability to counterbalance the superpowers on the world stage.

In his most substantial statement on international affairs for many months, Deng told a visiting delegation from Japan's Chamber of Commerce and Industry that a strong China would be able to check the drift towards world war and provide the impetus for a major expansion in international trade.

While China was still developing, its "strength in checking war" was limited. But by the end of the century, when its industrial and agricultural output had quadrupled, China would play a much more important role.

"The growing strength of the Third World, and China in particular, is an important factor for world peace and stability," he said. China had always stood for peace and opposed "super-power hegemonism."

The danger of war still existed, and he saw no progress in the talks between the Soviet Union and the U.S. on nuclear arms control.

"The forces for peace which could exercise a check on war are making headway, progress. Japan does not want war, nor do the people of Europe. The Third World countries hope to develop themselves and war will bring them no good."

The growth of China's strength was, therefore, in the interests of peace and stability in the Asia-Pacific region and the rest of the world.

The meeting with the Japanese delegation was Deng's first major engagement since returning from a long holiday in southern China.

He told the delegation that, if the developing countries, Japan, Western Europe and the U.S. wanted to develop further, they would have to have new

CHINA has decided to revive memories of one of the most bitter episodes of the Japanese occupation during World War II, Mark Baker writes.

The Government of the northern province of Heilongjiang plans to renovate the site of a Japanese germ warfare camp in Harbin where more than 3,000 prisoners died after suffering horrific torture at the hands of Japanese military doctors.

Peking's approval of the plan, at a time of warming relations between China and Japan, threatens to provoke a new bout of political tension.

Japan's wartime excesses remain an emotive undercurrent in Sino-Japanese relations and a cause of lingering suspicion and resentment among older Chinese people.

outlets for their funds and products.

"Unless the Third World countries can resolve their economic problems, it will be no easy thing for the developed countries to make further advances," he said.

"If the South remains poor, there will be no way out for the North."

Mr Deng said China, despite its size, had done only \$50bn business in foreign trade last year. If China could double or quadruple that level of trade, then its ability to use foreign funds and products would grow considerably.

He conceded that the growth of Chinese exports could lead to greater competition, but the developed countries should not be concerned as they had the most advanced technology and were able to produce higher quality products.

Israel says UN force 'in the way' in Lebanon

By David Lerman in Tel Aviv

ISRAEL complained to the ambassadors of the countries contributing troops to the UN forces in Lebanon that "Unit 1" is getting in the way and interfering in the Israeli searches of Shi'ite villages in southern Lebanon.

Mr David Kimche, director general of the Foreign Ministry, who was explaining Israel's "iron fist" policy towards the Shi'ites, said Unit 1 in its present deployment was of very little use.

The Lebanese appeal to the UN Security Council against the punitive raids was dismissed by Mr Kimche who said that an amount of UN resolutions would help the Lebanese.

Only a call by the Lebanese Government to the people of the south to halt their attacks on Israeli forces could bring peace to the area.

Meanwhile, an army spokesman in Tel Aviv denied that any Israeli positions in the eastern sector had been evacuated. Equipment is being withdrawn, but no outposts have been handed over to the Lebanese, the spokesman said.

UK, Libya hold official talks

BRITAIN and Libya yesterday had their first official talks since the shooting of policewoman Yvonne Fletcher outside the Libyan embassy in St James's Square, London nearly a year ago.

The discussions, at official level, took place in Rome under the auspices of the Italian Government, which has looked after British interests in Tripoli since diplomatic relations were broken off between Britain and Libya in April 1984.

The talks follow a statement by Sir Geoffrey Howe, the Foreign Secretary, in the House of Commons early last month that Britain was prepared to resume contacts with Libya following the release by Tripoli of four British hostages.

However, Foreign Office officials warned against expectations of any dramatic developments from the talks, which would deal with practical issues, such as the welfare of the British community in Libya. Any early resumption of diplomatic relations between Britain and Libya is not expected.

Indian state election results

MR RAJIV GANDHI'S Congress I Party was doing well last night as early results were announced in India for elections to 12 provincial assemblies.

John Elliott writes from New Delhi. Polling started on Saturday and was completed yesterday, apart from about a dozen constituencies where polling is to be repeated because of violence which claimed a total of more than 30 lives.

The turnout was estimated at around 55 per cent, less than in last December's general election when Mr Gandhi won a landslide victory in national elections.

The lower turnout, and concentration in some areas on local issues, may cost him some votes. The main results will be announced today.

Nakasone weakened by Tanaka's absence

By JUREK MARTIN IN TOKYO

MR YASUHIRO NAKASONE, Japan's Prime Minister, appears to have been seriously weakened by the disclosure that his principal supporter, Mr Kakuei Tanaka, looks likely to be out of political action because of ill health, for a very long time.

The widespread view in Japanese political and Western diplomatic circles yesterday was that barring a miraculous recovery by Mr Tanaka, Mr Nakasone has virtually no chance of staying in office beyond November next year, as he would like, and may do well even to survive beyond this November.

It is also felt that his ability to conduct in policy, in the meantime, has also been impaired, simply because Japan is about to be consumed by political infighting in which he will not be operating from a strong position. This is a potentially serious matter, given the increasingly heavy pressure for trade concessions from the U.S., which has been relying on a strong Prime Minister to impose

political decisions on a recalcitrant bureaucracy.

An important caveat remains Mr Tanaka's health. But medical reports on Monday night said the former Prime Minister faced protracted hospitalisation of at least three to four months. His condition was generally graver than had previously been announced, almost universally, the talk of Japanese politics has, as a result, moved on to "the post-Tanaka era."

Mr Nakasone is a politician of proven tactical resilience but none of his options appears very attractive at present. One possibility, and certainly the biggest gamble, would be to take advantage of the current deadlock in the Diet, where the opposition is boycotting budget hearings, to call a snap general election, hoping that he can reap the credit if the ruling Liberal Democratic Party does well.

At least one of the opposition parties, the Buddhist-based Komeito, might go along with this, but it would be resisted by other centrist parties and a substantial part of the LDP



Mr Nakasone: survival beyond November in doubt

itself. The very act of pushing for an election could even weaken Mr Nakasone inside his own party.

Another possibility is to try to cut a deal with Mr Shin Kanemaru, a canny LDP veteran who suddenly holds more cards than most in this delicate poker game. He is Secretary General of the LDP, a leader of the Tanaka faction

and, crucially, the chief supporter of Mr Noburo Takeshita, the Finance Minister, who has emerged as probably the favourite to take over from Mr Nakasone.

But it is hard to imagine Mr Kanemaru agreeing to anything that would keep Mr Nakasone in office beyond November next year when his two-year term as party leader expires. He might accept that, however, if it could be assured that Mr Takeshita, to whom he is related by marriage, would then assume the helm.

The big prize in the LDP's factional make-up is Mr Tanaka's 120-plus strong group, which, thanks to its leader, underpins Mr Nakasone. Mr Takeshita is challenging for this and if Mr Tanaka effectively departs from the scene, he could well reckon on picking up the backing of two-thirds of it: the balance would probably coalesce behind another veteran, Mr Susumi Nikaido, but the Prime Minister, whose own faction is only the fourth largest, would be left a little bereft.

It is not that easy for Mr Takeshita, simply because his political ambitions are believed to have put Mr Tanaka under great strain. But if he conducts himself carefully over the next two months and, if Mr Kanemaru directs the political traffic as capably as he can, the opportunity is clear.

Also left potentially to the cold is Mr Shimaro Abe, the Foreign Minister and "crown prince" of the political theatre. Once the favourite to succeed Mr Nakasone, he now must engage in alliance-making of his own, but it is not easy to see how he can do this with the Prime Minister. If complete confusion reigns, however, Mr Nikaido, a man who is as crafty as Mr Kanemaru, could step in and pick up the pieces.

But it is, above all, Mr Nakasone himself, who has caught, with some success, to portray himself, at home and overseas, as that unusual character—a decisive Japanese leader, who is now clutching at straws. Most observers here are wondering exactly where he is going to find them.

Botha seeks civil service savings

By ANTHONY ROBINSON IN JOHANNESBURG

PRESIDENT P. W. Botha yesterday announced a series of cuts in civil service pay and conditions designed to save R230m a year, Mr Botha added.

The cuts would not only apply to central government employees but also those of provincial administrations and nationalised industries such as the Post Office and South African Transport Services.

In the autumn of 1983 the Government raised public sector salaries by an average of nearly 30 per cent. The timing, just before the white referendum on the new constitution, was widely interpreted as a manoeuvre designed to ensure the voting

loyalty of the largely Afrikaner civil service.

The resulting increase in government spending has been a major inflationary factor. The increase in public sector borrowing also contributed to a series of tax and interest rate increases which have pushed prime rate to a record 25 per cent.

The Government has pledged not to increase government spending in fiscal 1985 and to raise public service productivity by 8 per cent. On Monday Mr Botha announced that government ministers and members of Parliament would take a 3 per cent pay cut.

Banks set to sign debt accord with Philippines

By SAMUEL SENOREN IN MANILA

INTERNATIONAL BANKS are prepared to sign an agreement with the Philippines on March 19 to reschedule about \$6bn (25.6bn) in maturing loans as well as provide \$925m in new money after overcoming an obstacle posed by the National Commercial Bank of Saudi Arabia, banking officials said yesterday.

The new date for signing of the agreement comes immediately after an international Monetary Fund mission, which arrived in Manila last week, completes its first quarter review of the Philippines' economic performance.

The agreement was to have been signed in New York on February 26. But had to be called off when National Commercial refused to go along with the financial package.

National Commercial had not been prepared to extend new loans to the Philippines because of its policy of reducing international exposure. But last week, according to the officials, an advisory committee and the Philippine Government were able to persuade the Saudi bank to join the financial bail-out for the Philippines.

South Korea 'to lift ban on leading dissidents'

MR KIM DAE-JUNG, the leading South Korean dissident, said yesterday that the Government had informed him he would be made "free" shortly. Reuter reports from Manila.

"I did not bother to ask what the freedom was, but I understand it means lifting of the political ban," Mr Kim said. He said government officials who visited him were not specific on the timing.

Aides of another dissident and Mr Kim's collaborator, Mr Kim Young-sam, said officials told him yesterday a cancellation of an eight-year ban was also expected this week.

The two are among 14 people banned from all political activity for alleged corruption until 1988 when President Chun Doo Hwan is due to stand down after a seven-year term of office.

The chairman of the ruling Democratic Justice Party, Mr Roh Tae-woo, visited President Chun Doo Hwan yesterday to urge the lifting of the ban, party sources said.

Kim Dae-jung, a 59-year-old former presidential candidate, has been confined to his home by police since his return from two years of exile in the U.S. on February 8.

Although Mr Kim will be

allowed to leave his house where he has been confined by police "since" returning from the U.S. he may still be prevented from joining a political party or directly influencing politics because of a suspended 20-year sentence for sedition, diplomats said.

The lifting of the ban is expected to please Washington which had called for an easing of restrictions on Mr Kim. President Chun is due to visit Washington for talks with President Reagan next month.

Diplomats said the revoking of the ban was also dictated by the good showing of a new opposition party backed by the two Kims in last month's national elections.

Although the Democratic Justice Party retained its majority in parliament, the newly-formed New Korea Democratic Party swept the main cities and emerged as the main opposition group.

The timing of the lifting of the ban was also important, diplomats said, as the government feared a renewal of anti-government protests by students who were due to return to their campuses next week after the winter vacation.

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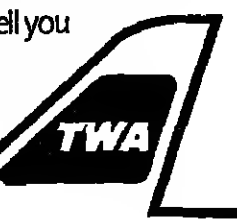
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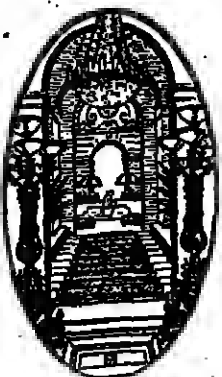


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Senate Republicans abandon attempt to draft cuts package

BY STEWART FLEMING IN WASHINGTON

U.S. SENATE Republicans have conceded defeat in their efforts to draft a package of spending cuts aimed at reducing the \$200bn plus (\$182bn) annual federal budget deficit. Mr Pete Domenici, chairman of the Senate Budget Committee, has disclosed.

Senator Domenici has instead moved to initiate formal negotiations within his committee involving both Democrats and Republicans. He kicked off the proceedings himself this week by launching a proposal for cutting the deficit by \$300bn over the next three years.

Mr Domenici's plan has been dubbed "the promised land," a title chosen to identify the target of a \$100bn budget deficit in 1985. However, it unwittingly conveys the quality of fantasy which has overtaken bold and painful initiatives designed to cut the budget.

Mr Domenici's plan, which does not have the support of his own party in the Senate, the House of Representatives, or the Democrats, would reach the promised land by initially cutting government spending by \$60bn in 1986.

This would be achieved in part by enacting the bulk of President Reagan's spending cuts (almost all of which are in political trouble), freezing social security spending (which the President has hinted he would accept), and raising defence spending by 3 per cent rather than the 5.5 per cent the President has asked for. The White House opposes this reduction in the growth of the defence budget.

At the beginning of last month Senator Robert Dole, the Republican majority leader in the Senate, failed in a bid to meet a self-imposed deadline for rallying his party behind a budget-cutting scheme. Since then, hopes of a major budget package have been fading.

By pulling Democrats formally into the budget negotiations in the Senate this week Mr Domenici has opened the door for a politically charged budget policy debate which, if anything, is less likely to result in major spending cuts, but which will at least saddle the Democrats with clear responsibility for the future which is anticipated.

Bank of Boston's dealings under careful scrutiny

BY PAUL TAYLOR IN NEW YORK



Brown: "systems failure"

OVER the past month, an intriguing story has unfolded around New England's premier banking institution, the First National Bank of Boston.

On the one hand, it involves paper bags stuffed full of money, deposited at one of the bank's branches in Boston's Italian neighbourhood by members of the Angiulo family, alleged ringleaders of the New England mafia, in return for millions of dollars in cashiers' cheques.

On the other, it involves more than \$1.2bn in cash currency transactions conducted by the Boston bank with a group of overseas, mostly Swiss, financial institutions.

The Bank of Boston maintains there is "absolutely no connection" between the two sets of transactions. Instead, it admits only that a four-year investigation by Federal authorities into the domestic financial activities of the Angiulo family in New England led to the unearthing of a "clerical oversight" by the bank's officers failing to report legitimate large cash transactions with foreign banks.

Nevertheless, the revelations have cast a long shadow over the 200-year old banking group, a pillar of Boston society, which is also the 16th largest banking group in the U.S.

For the first time ever, rumours about "money laundering" have touched one of the nation's premier financial institutions.

The problem of money laundering — passing illegal profits from drug dealing and other illegal activities through financial institutions to disguise their source and amount — is not new. But, until recently, attention has focused on smaller, more shadowy institutions. The Federal Government's attempts to crack down on this activity have focused on setting up a special team of investigators, nicknamed "Operation Greenback" in Florida five years ago, together with tougher domestic and international cash transaction bank reporting requirements gradually introduced since 1970.

of the Angiulo family several years ago. Gradually they pieced together a tangled web of cash transactions which has led them to a series of bank and brokerage firm accounts.

In the process, they discovered that First National Bank of Boston had been failing to report large cash transactions with foreign banks following a tightening of the reporting rules in 1980 to cover foreign, but not domestic, inter-bank cash transactions involving more than \$10,000.

But it was not until early last month that the fruits of their investigations began to become public.

Late on February 7, First National Bank of Boston pleaded guilty to a charge that it "knowingly and willfully" failed to report \$1.22bn in foreign currency transfers over a four-year period and agreed to pay a \$500,000 fine.

According to Federal investigators, these bank-to-bank shipments involved unusually large amounts of \$5, \$10 and \$20 bills being carried to Boston from overseas for deposit in satchels by transatlantic couriers. When the foreign banks made withdrawals, new \$100 bills would often be shipped back across the Atlantic. The pattern of transactions led some Treasury and other officials to suggest the bank may have been used unwittingly as a conduit for money laundering.

The Bank of Boston, the bank's parent holding company,

has steadfastly maintained that the transactions were part of its normal correspondent banking business.

But the unwelcome publicity for the Boston bank did not end there. A few days later, as more details of the Federal Prosecutor's investigation into the Angiulo family emerged, the bank's chairman, Mr William Brown, held a rare Press conference.

At it he said the failure to report the foreign cash transactions resulted from a "systems failure" whereby bank officers failed to act upon the 1980 change in reporting rules. The bank chairman emphasised that there was "no evidence" to link the reporting failure with illegal money laundering.

Meanwhile, in Boston more details about the separate inquiry into the Angiulo family finances continued to emerge. The Press discovered that Federal prosecutors filed an affidavit last September which detailed the banking arrangements between the family and one of the Boston bank's branches — arrangements which the former head teller of the bank's North End branch subsequently confirmed.

Two weeks after the initial revelations, Mr Brown held a second news conference at which he said he was now free to talk about the Angiulo family after being exempted from Justice Department restrictions.

He confirmed that for a four-year period until 1983, the bank kept two Angiulo-controlled properties on a special "exempt" list which allowed the five Angiulo brothers to carry out more than \$2.1m in cash transactions without having them reported to the Government.

However, Mr Brown emphasised that the list of exempt companies was available to the government and denied that there was any attempt to conceal the bank's dealings with the family.

He also repeated that there was no connection between the bank's international currency transactions and Angiulo banking transactions.

However, he said the bank had appointed a special five-member committee of outside directors to investigate both the failure to report the international transactions and its relationships with members of the Angiulo family.

"We have concluded, after thorough investigation, that supervisory and operating personnel at the bank used poor judgment in putting the Angiulo companies on the exempt list. As a consequence, we have revised and strengthened our policies."

Nevertheless, the very fact that the Angiulo companies were on the exempt list was clear cut notice to the interested government agencies that those companies regularly dealt in large cash transactions.

cedures failed to bring any questions regarding the Angiulo accounts to the attention of top management, we have been at fault," he said.

"Let me emphasise that we have been conducting investigations internally for a year and, again, we have no evidence whatsoever that any employee of the bank benefited in any way from the transactions and accounts with the Angiulos."

"Any question, or even innuendo, that there has been any connection with a crime syndicate is false."

A Federal grand jury is believed to be continuing its investigation and next Tuesday, the day after five members of the Angiulo family are due to go on trial on charges which include racketeering, the first of two scheduled congressional inquiries will begin into how the bank's failure to report the \$1.22bn in overseas cash transfers.

The bank's officers are not alone in coming under Congressional scrutiny. The hearings could also cast further serious doubts on the effectiveness of the various bank regulatory and examination procedures which failed to pick up the reporting failures earlier.

U.S. Government probes General Dynamics' bills

BY WILLIAM HALL IN NEW YORK

THE U.S. Defence Department has taken the highly unusual step of temporarily suspending some payments to General Dynamics, the country's biggest defence contractor, while it investigates possible irregularities in billing the Government.

Mr Caspar Weinberger, U.S. Secretary of Defence, announced yesterday that the U.S. Government was stopping payments of \$35m a month to the company for 30 days while it investigated the company's alleged billing abuses. If the investigation is not completed within 30 days, the suspension of payments will be extended. The investigation will also cover possible criminal activity by the company.

General Dynamics shares slumped following the announcement. In less than an hour the shares fell \$6 and by lunchtime were trading at \$74.

General Dynamics produces many of the Pentagon's favourite weapons, such as the F-16 jet fighter, the M-1 tank and Trident submarines.

In recent months, members of Congress have charged that the company allowed extraneous

ment expenses to be improperly billed to the U.S. Government. Mr Weinberger said yesterday that there was evidence that the cost of boarding a pet dog owned by a company official had been billed to the Government.

The Defence Department's action is a sign of a much tougher approach to alleged abuses by the major defence contractors who have been prospering greatly on the back of the defence spending boom. Mr Weinberger said that in future all contractors will be required to certify "under penalty of perjury" that items billed to the Government were legitimate work done under the terms of the contract.

A Congressional sub-committee has been investigating several incidents of overcharging by General Dynamics, including a \$18,650 (\$17,000) bill for an executive's country club fees and gifts of jewellery to the wife of Admiral Rickover, the former head of the Nuclear Submarine Group for which General Dynamics acted as primary contractor.

Software joint project clears legal hurdle

THE U.S. Justice Department said it will not seek to block an anti-trust grounds a proposed joint software research project by 20 computer and aerospace companies, AP-DJ reports from Washington.

The proposed consortium, which includes a number of the largest U.S. aerospace contractors including Boeing, Rockwell International and Sperry, is the first such joint venture cleared by the Justice Department under the National Co-operative Research Act passed by Congress last winter.

Final plans for the joint venture have been held up pending an antitrust review and other decisions.

Companies involved in the joint venture say the aim is to combine research to develop advanced artificial intelligence software and very large scale computer-aided design programs.

U.S. curbs on leaded petrol 'may hit prices'

By Nancy Dunne in Washington

RULES issued by the U.S. environmental Protection Agency (EPA) on Monday, which will mean a 90 per cent decrease in the use of lead in gasoline by the end of the year, may disrupt supplies and raise prices, according to the American Petroleum Institute (API).

The rules require that the lead content of gasoline be reduced from the current maximum of 1.1 grams per gallon to 0.5 grams by July 1 and 0.1 grams by January 1, 1986. The agency is also seeking public comment on a total ban on leaded fuel by 1988.

"The lead-reduction schedule will create a substantial problem for the refining industry in providing motorists with adequate quantities of high-quality gasoline at reasonable costs," the API said.

Refiners warned that the rules could cause gasoline shortages this summer.

Reagan links MX funds to Geneva talks success

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

PRESIDENT RONALD REAGAN yesterday appealed to Congress not to "unilaterally weaken" the U.S. negotiating position for arms talks with the Soviet Union by rejecting funds for one of the key components of his strategic build-up, the MX intercontinental missile.

"The Soviet Union would be watching keenly to see if Congress were to 'blink' on the MX programme and reduce U.S. capability 'without their having to do a thing,'" Mr Reagan told a congressional breakfast meeting.

Mr Reagan's latest appeal came as he pulled out all the stops to avoid defeat for the controversial 10-warhead missile in a series of crucial Congressional votes that could still go either way later this month. While Congressional sentiment appears to be moving in favour of the missile, the White House says that it is "not confident" of victory.

Mr Reagan launched his latest campaign to save the MX with a report to Congress on Monday formally requesting the release of \$1.5bn for another 21 missiles in addition to the 21 already in production. Congressional approval would bring the \$2.1bn programme for a total of

100 missiles past its halfway mark. MX opponents believe that rejection of the new funds could strike a fatal blow to the 12-year-old missile programme, which they regard as uneconomical, too costly and strategically destabilising. They argue that the existing 1,000-strong U.S. Minuteman force provides a more than adequate nuclear deterrent.

The missile's critics won what they hoped would be a decisive victory last year, when Congress accepted that the additional \$1.5bn could not be released unless the Administration won every one of the four votes, two each in the House and Senate, that are now to be held around March 20.

Mr Reagan, however, has markedly improved his hopes of turning the tables with the agreement to resume arms control talks with Moscow in Geneva next Tuesday.

In his report to Congress, Mr Reagan argued both that the missile was essential to offset the continuing rapid Soviet build-up of offensive strategic forces, and that its rejection would seriously endanger the prospects for an arms control agreement.

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*Source: The Society of Motor Manufacturers and Traders.



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UK NEWS

British-led group expected to win Inmarsat contract

BY PETER MARSH

AN INTERNATIONAL consortium led by British Aerospace looks almost certain to win a \$160m contract to supply three satellites to Inmarsat, the international satellite organisation that operates communications links for ships.

The London-based Inmarsat said yesterday that it was due to complete negotiations with British Aerospace over the contract by next month.

Only if these discussions break down will the international organisation, which is owned by 43 countries, reopen negotiations with a second bidder for the satellite contract, another consortium headed by Marconi Space Systems of Britain and including Ford of the U.S. and Aerospatiale, the French company.

The decision was taken by a meeting of Inmarsat's governing council, which has been meeting in London since last Wednesday.

British Aerospace's partners in this venture are Hughes of the U.S.

and Matra of France. Assuming the final negotiations are successful, the consortium stands to gain further orders from Inmarsat over the next few years for an additional six satellites worth about \$240m.

If the order is sealed, British Aerospace Dynamics Group, based in Stevenage, north of London, will be given the job of planning the design and construction of the satellites.

The first three satellites in the order are due to form the basis of a second-generation communications network for Inmarsat, which routes telephone calls and data between about 3,000 ships and their shore bases.

The new satellites will enter orbit from 1988 onwards. They will take over the function of Inmarsat's existing space vehicles, which are all leased - either from the European Space Agency, Comsat General of the U.S. or Intelsat (the international organisation responsible for routing ordinary telecommunications traffic by satellite).

Stock Exchange plan

BY JOHN MOORE, CITY CORRESPONDENT

THE 4,500 members of the London Stock Exchange have been told by Sir Nicholas Goodison, chairman, that he hopes to hold a meeting of members on June 4 to gain their support for radical constitutional changes.

The changes will lead to a dramatic change in the membership structure and the full admission of outside financial groups to the exchange.

Sir Nicholas said in a letter to members yesterday that the ruling council of the exchange had "nearly

completed its review of the membership rules and related subjects."

He said the council's deliberations had covered a wide range of future policies and regulations. These included those relating to individual membership, qualifications for membership and for those who would advise their firm's clients, corporate membership, outside participants and reciprocity between stock exchanges.

The proposals for the changes have been formed by a six-man sub-committee of the council



Miners in many parts of Britain marked the end of the year-long pit strike by marching back to work in front of their union banners. Mr Arthur Scargill (right) president of the union, is seen shaking hands with a well-wisher as he led miners returning to Barrow colliery, near Barnsley, South Yorkshire. The march was later halted by a line of pickets and no miners reported for work at the pit.

NCB to shift power base

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board's (NCB) plans to devolve power to regional directors and pit managers, and to begin moving many of the central services out of its London headquarters to the regions, will be put into operation in the next two to three months.

The date provisionally set for the changes to begin is April 1, though this may slip because of the problems associated with the start-up of production after the 13-month strike.

The office of the chief executive, which is presently composed of Mr Ian MacGregor, the NCB chairman and Mr James Cowan, the deputy chairman, will be strengthened and extended.

Three, or possibly four, of the NCB's "brightest and best" area directors are likely to receive new

and powerful jobs soon. All of these are seen as possible future chairmen or deputy chairmen of the board - though Mr MacGregor is thought likely to at least complete the 18 months of his contract before retiring.

The directors are Mr Michael Eaton, the North Yorkshire area director and for the past five months the board's "voice" in place of Mr MacGregor, who has impressed ministers with his handling of his task; Mr Ken Moses, the North Derbyshire director, whose inventiveness won back men in his area from an early date in the strikes; Mr John Northard, director of the Western area who has been similarly successful in breaking his strike; and Mr Albert Wheeler, the hard-line Scottish director - though he is seen possibly as too publicly

abrasive even for the new, tough board.

Mr Eaton, with his intensive experience in the past months, is talked of as a possible board-level appointment.

Crucial to the new top management team will be the imposition of guidelines on pit level management, especially in industrial relations, and the development and writing of the new "Plan for Coal" to replace the 10-year old plan, the targets of which are hopelessly unrealistic.

The new plan would contain no output targets. It would set instead a loose framework concentrating on issues such as the market for coal, productivity and "community responsibility" where pits have had to be closed.

Motor industry said to face crisis over research resources

BY JOHN GRIFFITHS

THE UK is facing a gathering crisis in research and development (R & D) in the motor industry and other sectors, according to Mr Harry Sherron, managing director of BL Technology, the research arm of state-owned car group BL.

He said it was being brought about by lack of investment, inadequate government support, a dearth of designers, engineers and other technologists and an education system which was failing to inject new blood.

The UK might already be "below the critical level" needed for its efforts to stay internationally competitive in its technology and products, Mr Sherron said.

There were few designers left in the UK capable of producing an automatic gearbox, he said. If trends continued there would be no engine design capability left in Britain within a decade. On a wider front, even the UK's defence capability was emerging as a problem.

In the past few days, two examples had emerged:

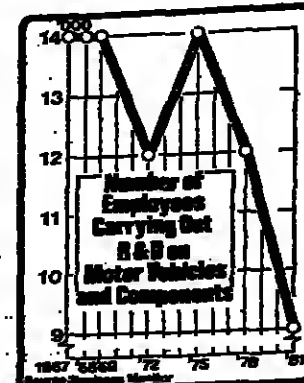
Jaguar Cars acknowledged that it was having difficulty in finding qualified engineers at salaries of up to £20,000 a year.

At the Government's security communications centre at Cheltenham, there was a reported shortage of a range of electronics specialists which, according to union sources, was beginning to hamper the centre's operations.

The engineering and technology-based industries is the only sector where the supply of graduates falls short of demand.

Statistics produced by the Open University indicate that only about one fifth of graduates in the field actually enter the industries themselves.

"Where the others go is indeed puzzling," a report by Dr John Her-



lock, the university's vice-chancellor, says. "There are many people who argue for engineers to enter merchant banks and the Civil Service. I would be the last to dispute the proposal that more engineers should be recruited to these areas, but I am concerned about industry being bled white."

The gap between what the UK and leading developed world competitors were achieving in terms of technological effort was enormous, Mr Sherron pointed out. "It is likely now that total research and development spending in the UK motor industry has fallen to below £200m. But about 95 per cent of that relates to new model development. In other words, only about 5 per cent of that is going into truly original research."

Statistics from the UK's Business Monitor show only just over 1 per cent of that R & D spending is financed by the Government. In the U.S. in 1983, according to federal government statistics, some \$1.07bn was provided from federal funds for R & D in motor industry and transportation sectors.

Tories slip further in opinion poll

THE CONSERVATIVES' position in an opinion poll continues to decline, according to Market and Opinion Research (MOR). It says the decline has mainly benefited the Social Democratic Party/Liberal alliance, Peter Biddell writes.

The poll, published in the Standard, the London evening newspaper, puts the Tories at 38 per cent, compared with 42 per cent in late January, with Labour at 35 per cent (34 per cent) and the Alliance up from 21 to 24 per cent.

This result conflicts with another recent MOR survey conducted slightly earlier in February which put Labour at 40 per cent, the Tories at 38 per cent and the Alliance at 19 per cent.

The latest survey shows that the biggest switch has occurred among home owners with mortgages (roughly two-fifths of all families), probably reflecting the impact of the latest increase in mortgage rates.

The overall implication is that British politics is now in a much more fluid phase and that the impact of the miners' strike was probably declining well before its final end this week. For instance the percentage of the sample mentioning trade unions/strikes as the most important issue has declined sharply since the end of last year, while the proportion mentioning prices/inflation has risen sharply.

❑ MISTAKES that caused the accident at the Three Mile Island power station in Pennsylvania six years ago would not occur at the proposed Sizewell B plant, on the east coast of England, the Central Electricity Generating Board (CEGB) claimed yesterday.

The CEGB wants to build a pressurised water reactor at Sizewell - the same type of power station as that involved in the U.S. accident.

Lord Silcock QC, the CEGB's leading counsel, told the Sizewell inquiry that operator training, control room layout and maintenance procedures would all be of a more acceptable standard than those employed at Three Mile Island.

❑ ICI plans a doubling of key research staff in its fast-growing agrochemicals division. Recruitment will total 200 over the next five years as part of an investment programme costing over £25m.

The expansion will take place at Jealott's Hill in Berkshire, the group's world headquarters for primary agrochemicals research. The number of teams working on the synthesis of organic chemicals is to be doubled to 42.

In its record recently announced last week, ICI disclosed agrochemical profits of £82m - up 32 per cent - on sales of £835m for 1984.

❑ BRITISH SAVERS have moved their money away from bank deposits over the last 10 years and into building societies, pension schemes and housing.

Bank deposits take only 4 per cent of personal sector funds. Ten years ago their share was 28 per cent, according to a survey by Financial Sector Research Associates. The personal sector's sources of funds in 1983 totalled £49bn, of which £22bn was provided by savings, £20bn by borrowings and the remainder principally by capital transfers.

❑ BOEING, the U.S. aircraft manufacturer, has placed a contract with Short Brothers of Belfast for carbon fibre rudders for the Boeing 737-300 aircraft.

The state-owned Belfast company said it had been asked to make 150 rudders using advanced composite materials. The first rudder is due for delivery in March next year.

Shorts said the value of the work would be millions of pounds. It is the first significant contract for a UK company to result from the 737-300 project.

Citicorp draws closer to the City establishment

BY DAVID LASCELLES, BANKING CORRESPONDENT

CITICORP'S RECENT takeover of Seacombe Marshall & Campion, the small discount house, was yet another dramatic sign of change in the City of London. No bank, let alone a foreign one, had ever owned what some people call the Bank of England's protected species.

But does it mean that the takeover wave which has engulfed the stockbroking and jobbing community in the last 18 months has now burst over into the discount market as well? Despite initial speculation along those lines, the prospect seems small.

For one thing, Citicorp had its own reasons which not many other banks appear to share. For another, the discount market is, itself, likely to undergo big changes in the next couple of years, and many would-be entrants may prefer to hold their fire until they see what happens.

The UK's nine discount houses are special banks which deal in short-term instruments such as bills, and have traditionally been

the channel through which the Bank controls the liquidity of the UK banking system. As such, they are the only institutions which have a dealing relationship with the central bank, a privilege which clearly attracted Citicorp.

The large New York bank said that it wanted presence in the whole gamut of UK financial markets. Its acquisition of stockbrokers Springour Kemp-Gee and Vickers da Costa has already taken it into bond and equities, but it also needed a dealing ability at the short end - where U.S. banks are active in their own country.

But some people in the City also see the acquisition as a bid by Citicorp to get closer to the UK banking establishment, and specifically build a rapport with the Bank of England. Its application last year to join the clearing system - again the first by a foreign bank - seemed to be spurred by the same motives.

Citicorp denies that this was a leading reason. Mr John Rogers,

vice-president, said that since Citicorp was already dealing in short-term instruments, it preferred to do so with proper franchise in the market. Obviously, though, it hopes to get a better reading of the Bank's thinking "through" its "discount house".

British banks feel quite close to the Bank already, and few foreign banks are quite as ambitious as Citicorp, which is why there may not be that many potential discount house acquirers.

With the gradual removal of patronage in the City, the dealing relationship with the Bank is about the only advantage left to being a discount house these days. Whether that gives the houses a jump on the rest of the market is a moot point. The Bank denies that it sends them any advance warning of its dealing intentions, but the closeness of the relationship must help. Starting next year, the Bank will advertise all its dealings on a screen, so dealers will all be equal.

Some see a positive disincentive for a large UK bank to buy a discount house. The Bank of England would not allow it to issue paper through its subsidiary for conflict of interest reasons, so it would only reduce its access to the market.

This is less of a problem for Citicorp, which does not issue huge quantities of sterling paper.

Besides, the price that Citicorp paid for Seacombe - a 45 per cent premium - seemed a high entry ticket to a market whose privileges have anyway been dwindling at the Bank's instigation. (Not that the £1m Citicorp paid was a gargantuan sum. "It probably came out of their advertising budget," commented one banker about the enormous publicity the deal received.)

The discount houses' most lucrative perk - the "club money" which other banks have to place with them - is being phased out. Their returns on capital have also fallen since the Bank stopped advancing them cheap money and allowed

more capital into the business, which in turn strained some smaller houses and triggered mergers which have halved their numbers.

The Bank has stopped short of abolishing the discount market altogether despite the huge changes which are transforming other markets such as gilts (Government stocks) and opening them up to all respectable corners (including discount houses).

The Bank has taken this stand partly out of an instinctive reaction against too much change at once. But it also wants to protect the smaller houses and ensure that highly sensitive short-term interest rates are formed by independent market-makers. In addition, it wants to sort out the problem created by the mountain of bills it has accumulated through its monetary control operations in the last few years.

Mr Gordon Pepper, senior partner of Greenwells, the stockbrokers, believes that there should be

no barriers between the long and short-term money markets. Preserving the artificial distinction creates unnecessary complications, wastes capital and probably adds marginally to the cost of money.

The fact that discount houses can become gilt dealers, but not the other way round, is also unfair.

No other country makes the distinction, though in the U.S. the Federal Reserve confines its money market dealings to a fluctuating group of 30 or so banks and investment houses.

Whether the Bank will hold to its line remains to be seen. Once the dust has settled from next year's Big Bank liberalisation of gilts and equities, officials may well take another look at the discount market's own future. But the next step is more likely to be the admission of new entrants, such as gilt dealers, rather than the removal of the barriers, though evolution will bring that about too, eventually.

BBC licence fee increase 'justified'

By Raymond Snoddy

AN INDEPENDENT review of the BBC's finances and efficiency published yesterday has "verified the justice" of the corporation's case for a £10 increase in the colour licence fee to £65, the BBC claimed.

The review, by Peat, Marwick, Mitchell, the management consultants and accountants was requested by Mr Leon Brittan, the Home Secretary.

It makes 30 recommendations for cutting costs or increasing efficiency ranging from using outside contractors for cleaning and security services in central and West London to the introduction of regular reviews of objectives and greater flexibility in the mix of television programme output.

Mr Stuart Young, BBC chairman, said the recommendations involved only "fine tuning at the margins" and amounted to a clean bill of health for the BBC.

The corporation emphasised yesterday that the consultants had been unable "to identify major sources of immediate economy while maintaining the range and quality of the BBC's existing services" - the review's terms of reference.

Peat Marwick also endorsed all but £10m of the BBC's inflation assumptions which make up 70 per cent of the increase claimed.

Arising from the review the BBC is to have talks with the independent Channel 4 to see how costs compare.

Labour calls for action over nation's poor diet

BY ANDREW GOWERS

THE OPPOSITION Labour Party called yesterday for a government drive to improve what it described as Britain's unhealthy diet.

In a discussion document, it said the Government should set "dietary goals" as the basis for a food policy aimed at improving the nation's health. Food regulations should be used to force manufacturers to improve the nutritional value of their products.

"It is a matter of putting pressure on the food industry to supply healthier foods at prices people can afford," the document says, describing the recent government move to set minimum standards for meat products as "weak".

It expresses concern about "the domination of the food industry by a handful of large companies" which "exert an enormous influence on the eating habits of the nation."

Labour cites evidence linking high consumption of saturated fats, sugar and salt with ailments such as heart disease, diabetes and high blood pressure. It underlines the connection between poverty and a poor diet.

The issue of food and health has received growing publicity in recent

months, particularly since the publication of a government-sponsored report last summer which drew attention to the link between Britain's diet and its abnormally high rate of coronary vascular disease.

That report has been accepted by the Government, which is expected to announce moves to put into practice its recommendations on improved food labelling later this month. But Labour's document goes further, calling for a "thorough and coherent review" of policy throughout government departments.

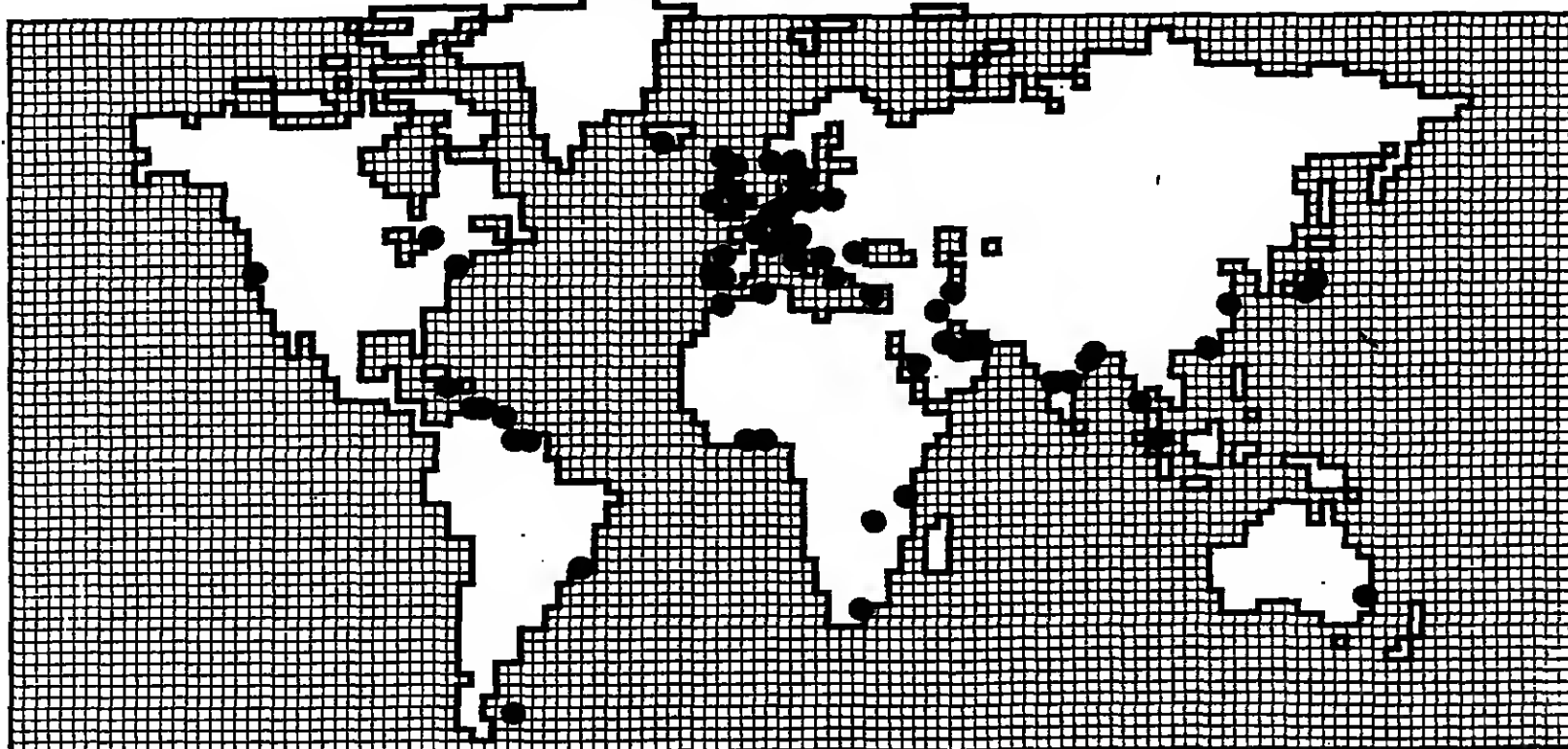
❑ The Government should require food labelling to be more informative about methods of production and related to dietary goals.

❑ Health education should be improved through the expansion of the Health Education Council, through schools and local health authorities.

❑ A code of practice should be drawn up to make food advertising more informative and eliminate unsubstantiated claims.

❑ The Government should press for adjustments in the EEC's Common Agricultural Policy, which Labour says conflicts in many cases with the goal of better nutrition.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

WHEN Joe Bamford retired to tax exile in Switzerland in 1976, many people wondered whether his son, Anthony, then only 30, would bring the same flair to the famous family business, J. C. Bamford Excavators, that the founder had shown.

Soon, doubts were fed as the company made a few unsuccessful product launches and a couple of false starts in the U.S. market. In 1979, its main rival, J. I. Case of the U.S., decided JCB was vulnerable and started a price war in an attempt to further weaken the company. More recently, JCB has been under heavy attack from Japanese excavator makers.

But the attacks have been to no avail. To the surprise of many, JCB has steadily increased its world market share. Moreover, it now has a firm foothold in the U.S. market and is no longer totally dependent on one product, its well known backhoe loader.

It is also one of the very few construction equipment companies in the world that is profitable. (Case is not.) Sales reached a record £142m last year, compared with £43.8m in 1979, the year before Anthony took over. Pre-tax profits were a record £20m last year and the company is debt free with cash balances of over £20m.

The keys to this success story—highly unusual among heavy manufacturers in Britain—are fairly straightforward. Probably the most important is concentration of the business. The headquarters and most manufacturing are based at a single idyllic site deep in the Staffordshire countryside. "We are all here," Anthony Bamford says simply, which is another way of saying they are not caught up in the problems of Britain's deteriorating industrial areas.

Then there is the attention to detail, especially costs, and massive and continuous investment in new plant and equipment. This year alone, the company expects to spend about £16m, more than four times its depreciation charge, on new factory equipment.

JCB's latest thrust, which has seen its world market share in backhoe loaders rise from 11 to 17.5 per cent since 1979, really began when J. I. Case, the world leader with a 30 per cent share, started a major attack on the company in its U.K. market base. JCB has over half the UK market and makes about 30 per cent of its sales of these machines there.

"They poached people from us, cut the price and told the market they were taking us out," Gilbert Johnston, JCB's chief executive recalls. "JCB had no choice but to keep its prices in line with Case; but this became a damaging process, especially when, in early 1980,



Anthony Bamford (left) and Gilbert Johnston: output per employee has risen from 9.7 machines in 1979 to 15.2 last year

Single-mindedness pays off

Despite fierce competition J. C. Bamford has had its best year ever. Ian Rodger reports

the pound soared to \$2.40 and Britain went into a deep recession.

Also, the company's efforts to establish a base in the U.S. were not working, putting an additional burden on resources at this time. Johnston estimates JCB lost a total of £12m in the U.S. up to 1980 when things finally started to go right there. "We took a hell of a bath," he says. "If we had been a public company, we would have been under a lot of pressure."

In 1980, group profits slumped to only £800,000 but the company responded characteristically by launching a three-year £24m investment programme to update its products.

Anthony Bamford admitted at the time that he knew the company was risking everything, but there was no choice. In retrospect, Johnston says that the crisis was the best thing that ever happened to the company, forcing it to make better quality products at lower cost.

Today, JCB officials proudly compare their performance statistics not only with U.S. competitors but also with Japanese companies. For example, JCB's sales, profit and assets per employee are all greater than those of Komatsu, the leading Japanese construction equipment group.

Like many manufacturers, JCB has invested heavily in recent years in high technology machinery to improve produc-

tivity. Ivor Lewis, production director, estimates that well over half of the group's machining is now done on CNC machine tools. However, the striking element at JCB's main plant is the focus on materials handling.

For example, the company has installed a £1.5m conveyor system for assembling the engine and transmission and then carrying them to the final assembly line. It replaced four workers, the use of fork lift trucks, and speeded up the process. Other new systems have simplified the handling of parts during stress relieving, shot blasting and painting stages, as well as contributing to higher quality.

JCB's main contribution to manufacturing innovation to date has been in the use of robots for arc welding. It has recently perfected robot welding of seams in its metal fabrications and has three systems in operation with four more on order. Each of the systems, made by Cincinnati Milacron, costs £100,000 but replaces 12 workers.

The company has also not hesitated to invest in complex manufacturing projects when it felt it could make a better product than it could buy. The outstanding example to date is the transmission system for its vehicles. Until 1980, JCB bought the entire drive train for its products from outside

suppliers. But this locked it in to a specific set of components. It wanted to improve some of the components and concluded that the only way to do this was to make its own axles. Then it could buy in the durable oil-immersed brakes it wanted, a full synchromesh gear box and other improvements. It invested £7m at a plant in Wrexham to make the axles and is now spending another £6m to make its own gear boxes.

The result of all these and other improvements in the past few years has been a remarkable increase in productivity. Annual output per employee has risen from 9.7 machines in 1979 to 15.2 machines last year—output has risen even though the total workforce has fallen from 1,850 in 1980 to 1,285. Also, working capital has been cut substantially. Stocks of materials and work in progress have been cut from 80 days' supply in 1979 to 26 days' last year. The overall cost of purchased components, accounting for 60 per cent of total costs, has been held steady for the past two years.

This degree of improvement has been essential in the tough market climate of the past few years. The world market for backhoe loaders has fallen by 40 per cent since 1979 to 33,000 units. JCB has not raised its list prices since 1981 and discounting is still rife in most of

its markets.

The company's product strategy has long been to concentrate on relatively small machines so that many of the same components can be used in different types of equipment. The problem has been finding new successful products so that the dependence on the backhoe loader is reduced. The company defines a successful product as one that sells at least 1,000 units a year (it makes about 6,000 backhoe loaders).

"We will try all sorts of products with our standard components," Anthony Bamford says. "If we make a mistake, it is not a problem." He cheerfully admits that the company failed with telescopic cranes and small dump trucks. But it scored a big win with a telescopic rough terrain fork lift truck, introduced in 1977 and now a world leader selling just over 1,000 units a year. And JCB is optimistic about its articulated wheeled loaders, now selling about 500 units a year.

The company's 350 degree hydraulic excavator line is still at the 500 unit level despite several years of effort, but Anthony Bamford regards it as a special case because it is the logical step up for many users of the backhoe loader.

Also, he has personally led the battle against the Japanese invasion of the British excavator market in the past four years, gathering evidence of dumping

for a European Commission enquiry.

"The Japanese worry us a lot. You need a good home market if you are going to be successful in the world. Our competitors in the U.S. and Japan are strong in their markets and we have to survive here," Bamford says. "When they started selling here at low prices, we tried to source components in Japan but we couldn't get them at prices that would enable us to match them."

Companies representing 90 per cent of the European excavator industry have joined in the anti-dumping complaint. "We were free marketers," Bamford adds with regret. "We feel people should buy our machines because they are not because they are British."

For the most part, that is happening. JCB's share of the U.S. backhoe loader market has risen from 2.6 per cent to 5.5 per cent in the past three years as the company has set up its own network of dealers. It was trying to sell through Caterpillar Tractor dealers but found they were not interested in selling small machines.

The U.S. is now JCB's most important export market, taking over 1,000 units last year, and yielding £15m in profits. "I think we have got it more right there than in the past," Bamford says wryly. Then comes France, where the company has raised its backhoe loader share from 20 to 28 per cent in the past four years and West Germany where it has a 22 per cent share.

All this would seem like the worthy prelude to a stock exchange listing, a string of acquisitions and drive to become a major world power in the construction equipment business, alongside Komatsu and Caterpillar.

But JCB has been through all that. Joe Bamford used to say that JCB would one day be the Caterpillar of Europe and, at various times, he contemplated buying Aveling Barford, the dump truck maker, Poclain, the troubled French excavator maker, and other competitors. In 1970, he toyed with the idea of going public.

But nothing came of these and other gambits, and the brief, sad history of JCB, the West German construction equipment group, suggests that the company has been wise to stick to its roots.

Anthony Bamford says the group has no intention of going public and he seems unenthusiastic about acquisitions. "There aren't too many people we can buy. And usually, you find that if a company is for sale, there is a reason. Our strength is product intensity, knowing our market and concentrating on it."

Book review

The gospel according to John Fenton

THE AUTHOR of this book, the dust jacket assures us, is the Billy Graham of selling. Mr Fenton gives us the old religion and no mistake, good sellers are the lifeblood of the nation. They are wolves not sheep, Positives not Negatives. They are blessed with the killer instinct.

Positives—the aforesaid lifeblood—are only 10 per cent of the population. They are thus outnumbered 10-to-one. Mr Fenton may be shaky on his arithmetic, but he can put over the old hoopla with the best of them, to the extent of having not one but two prefatory blurbs to his book—one from the Duke of Edinburgh and one from Mrs Thatcher.

Behind the pulp-thumping and simple homespun wisdom, the tone is profoundly depressing. "Deep down," says Mr Fenton, "people love to be exploited. On the beach, approach a couple and ask them to mind your cigarettes while you bathe. On re-emerging, take advantage of their good nature to sell them a time-share."

Go round doors telling people you are doing market research on double glazing. Using their helpfulness to establish them as prospects, use the Jekyll and Hyde technique (Mr Fenton's term) to suggest that your colleague George could call to show them a video extolling the virtues of double glazing in general.

People who succumb to such techniques generally feel conned and resentful after the event.

This is of no consequence to the wolf, who is already off, licking his chops, to the next sheepfold. But it may help to explain why so many unfilled vacancies at Job Centres tend to be in selling. People like Mr Fenton give selling a bad name.

It is also seriously questionable how far such one-off consumer techniques apply to industrial selling. For Mr Fenton, the same bag of tricks applies—lure an industrial contact with a fictitious new deal to obtain an interview, and so forth. Given that the customer is presented as a dehumanised obstacle, to be overcome by the killer instinct, justifying such deceptions later is a mere problem of technique.

In fact, real selling—an honourable as well as an essential discipline—has much to do with striking a lasting relationship with the customer; it requires an eye for human nature, and the knack of listening. On the evidence of his book, Mr Fenton possesses neither.

It would be wrong to present the book as wholly without substance. The chapters on organising the salesman's day, and how to present sales proposals, are of practical use, and there is a welcome emphasis on thorough training for the sales force. It is also true, as the book implies, that selling is as much a habit of mind as a technique. But not this habit.

How to sell against competition, by John Fenton, Heinemann, £15.

Tony Jackson

Business

courses

Sales management, Hertfordshire, April 29-May 3. Fee: £385. Details from InTech Training Ltd, PO Box No 2, Welwyn Garden City, Herts AL8 7BX. Tel: 07073 20944.

Intellectual property, London, April 18-19. Fee: £414. Details from Miss J. K. Van Wyck, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 404 4758. Telex: 886627.

SPIN sales manager training programme, Sheffield, April 15-19. Fee: £975 + VAT. Details from Ruthwaite Research Group, "Rotherwood", The Green, Penlstone, Sheffield S30 6BL. Tel: 0226 762581. Telex: 547897.

Introduction to management, Hertfordshire, April 29-May 3. Fee: £695. Details from the Registrar, Ashridge Management College, Berkhamsted, Hertfordshire HP4 1NS. Tel: 044224 5391 or 2311. Telex: 828434 ASECOL G.

Business strategy and corporate culture, London, April 11. Fee: £65 + VAT. Details from Industrial Evolution, 14 St Christopher Place, London W1M 5HB. Tel: 01-635 2604.

International finance, London, May 21-22. Fee: £210. Details from Nigel Meade, Department of Management Science, Imperial College, Exhibition Road, London SW7 2BX. Tel: 01-588 5111, ext 7123.



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For life's high achievers, we present our highest achievement; the new Vauxhall Senator. It's in a different class from its peers. Not least for its superior performance.

In its 3 litre form, the new Senator can reach a top speed in excess of 130mph.

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Yet, power alone isn't what singles out the new Senator.

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The security that comes with all round disc brakes costs nothing extra either.

Equally valuable is our optional ABS anti-lock braking system. In treacherous conditions it more than lives up to its name.

Also standard on 3 litre models is a 4-speed automatic gearbox that offers top gear lock-up, for more economical high-speed cruising.

Sitting at the controls of a Senator brings its own rewards.

Along with the comfort of a height adjustable seat and a tiltable steering wheel, all models enjoy the assistance of power steering and central locking.

And indeed, such thoughtful touches as electrically heated and adjusted door mirrors, headlamp wash/wipe and an electric boot release.

The 3.0iCD offers even more to savour; air-conditioning, heated front seats, an

advanced LCD instrument panel and a 7-function trip computer.

The Vauxhall Senator range starts at around £11,000 for the 2.5i model.

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EXTRA-COST OPTION. DOT FUEL CONSUMPTION TESTS MPG (LITRES/100 IM) FOR SENATOR 3.0 (AUT): CONSTANT 56 MPH 37.7 (7.5); URBAN CYCLE 19.3 (4.6); CONSTANT 75 MPH 29.1 (5.7).

TECHNOLOGY

UNDERWATER VEHICLE DEVELOPMENTS FOR SEABED MINING

France digs deep into the ocean bed

BY MARK NEWHAM

FULL-SCALE ocean mining is still years away but analysts are already forecasting a \$20bn a year industry when it does finally emerge in force.

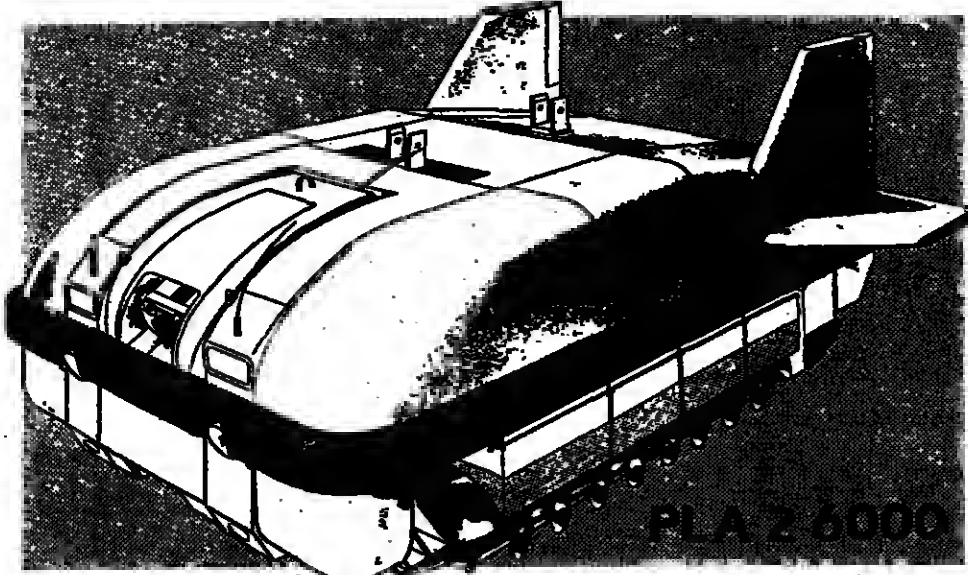
Engineers and designers around the world are busy testing a multitude of devices designed to scoop up the riches in the form of valuable metallic nodules that litter the deep ocean floors.

While most countries engaged in this field are developing large-scale mechanical scoopers, suckers and dredgers operated through umbilical lines connecting them with the surface, France hopes to steal a march on the rest of the world with two totally autonomous remotely operated vehicles. The French have developed devices which can operate without any form of physical link with the mother ship floating thousands of metres above them on the surface.

Work on ocean mining technology has been over-lorded by the French ocean mining consortium AFRONOD in conjunction with the national centre for ocean exploitation (Centre National d'Exploitation des Océans - CNEOX).

It was CNEOX which unveiled the Epaulard device in 1982 — a free-swimming, autonomous, unmanned submersible capable of working down to 6,000 metres to map and photograph seabed conditions. This device, CNEOX claimed, was the world's first totally autonomous, non-tethered, unmanned submersible. Before Epaulard, all unmanned submersibles had to be operated through umbilicals linking it with the mother ship — links which severely limited the depth to which submersibles could go and restricted their manoeuvrability in cramped conditions.

Work on the device started in 1976 but it was until 1979



that the first full-scale prototype underwent sea trials after three years' work. It has now completed over 100 operational dives for AFRONOD collecting data about deep seabed conditions and nodules reserves on the floors of the world's oceans, mainly the Atlantic and Pacific.

Armed with this information, AFRONOD will be in a strong position to capitalise on its investment when the oceans are opened up to commercial nodule mining.

Epaulard is a four metre-long fish-shaped vehicle weighing 2.5 tonnes out of water. It carries lights and cameras capable of taking up to 6,000 pictures during any single dive. The complete device is powered by lead-acid batteries which give the machine up to six hours of autonomous operation.

The vehicle's designers are in the process of upgrading the

system by incorporating silver-zinc batteries as the power source, a costly addition, but one which will double the craft's energy storage capacity allowing it greater range. The craft will also carry television transmission equipment to send pictures of its progress direct to the surface.

The greatest advance in the Epaulard system — and one which the system's designers are keeping secret for the time being for fear of imitations — is the subsea positioning system used to guide Epaulard to specific areas on the seabed with an accuracy of about 30 metres at 6,000 metres depth. It is based on acoustic signals transmitted from a microprocessor on the mother ship, the acoustic cycle being 10 seconds at 3,000 metres deep, and the system was developed in-house at CNEOX in conjunction with electronic

specialists of the Toulon-based company ECA.

Few companies have found a reliable alternative for the cumbersome umbilical-linked remotely operated vehicles now in use in the oil exploration-dominated subsea engineering business. CNEOX does not envisage Epaulard being leased to all companies at present. Its excessive cost precludes even oil companies from using it in their relatively shallow water operations. Epaulard is being kept exclusively for the present, for the deep sea nodule mining industry.

When the industry takes off even Epaulard will not carry out all the tasks required of a submersible in nodule mining. It needs a partner system capable of gathering the nodules identified by Epaulard. Once again, the French are outstripping other develop-

ments in this field with another autonomous submersible designed to operate in fleets to collect and ferry nodules to the surface. The PLA2 is designed and developed at a branch of the French atomic energy commission (Commissariat à l'Energie Atomique). It is a subsea robot which can be re-programmed to dive to pre-determined areas on the seabed down to 6,000 metres to scoop up nodules and return them to the mother ship.

Once on the seabed, PLA2 — 5.5 metres long and weighing 16,000 kg including ballast — works its way over the nodules area by means of two archimedean screws fitted to its base or by caterpillar tracks. The screws channel the nodules into a storage tank and, when full, the vehicle returns to the surface.

The vehicle has an autonomy of 20 to 30 minutes on the seabed which allows it to cover distances up to 600 metres travelling at the maximum speed of 0.5 metres per second. Power is provided by 60 gelified electrolyte batteries specially developed by the design team for the project. The batteries have a capacity of 6 kWh. In shallow waters, a power umbilical can be attached to link it with generators on the mother ship giving the vehicle almost unlimited range.

Before PLA2 begins its autonomous underwater mission, its microprocessor memory is programmed to follow a set path over the seabed. Its progress is monitored at the surface through an acoustic positioning system using a subsea receiver/transmitter beacon mounted on the vehicle.

If PLA2 proves reliable, its partnership with Epaulard should prove invaluable in France's dream to dominate ocean mining.

BIOTECHNOLOGY

Era of the bug

THE 1980s are the era of biotechnology, reflected in a worldwide increase in biological research, the formation of new companies and large investments by nations, companies and individuals.

But it is difficult to estimate how big the boom will be and how quickly it will end. "It is probable that if the present recession had not occurred, biotechnology would not be receiving the attention from industry, government and the media that it is now."

These conclusions appear in the introduction to the 1985 Biotechnology Directory, edited by Dr James Combs.

It points out that three factors which by chance came together at the same time generated new interest in biotechnology. First, a remarkable increase in knowledge of the genetic code and the ability to transfer genetic material from one organism to another (genetic engineering).

Second, the realisation that resources are finite and that recycling and avoidance of waste

will become essential. Third, the recession with the chemical and engineering industries depressed as a result of increased energy prices. "In the extreme case, biotechnology is seen as a means of restimulating the economy, whether on a local, regional, national or even global basis, using new methods and new raw materials."

The Directory has become a Bible for those working in this exciting area; it includes profiles of all the major nations engaged in biotechnology, search in western Europe, North America, Brazil, Australia and Japan.

For each country, all the major biotechnology companies are listed and there is a wealth of information about the non-commercial sector — the sciences, learned journals and magazines — as well as a buyer's guide to products, research and services.

It costs £65 from Globe Book Services (Macmillan) on 0256 29242.

ALAN CANE

FAILSAFE COMPUTING

Disaster recovery

A NEW £8m computer disaster recovery centre for IBM users has been opened at a secret location in London. For an annual subscription fee of between £20,000-£200,000, a company suffering computer failure can switch its entire operations to the disaster centre, which is fully equipped with IBM hardware, a telephone system and 3,000 sq ft of office area.

The disaster centre is operated by Failsafe, a joint venture between Intel and Atlantic Computers.

Intel, formerly British Leyland computer services, realised that there was a need for such a centre, when it was looking to back up its own computer centre in Redditch.

Intel already had substantial links with Atlantic Computers (which supplied much of the IBM-processor-based equipment at the Redditch plant), and the company therefore seemed the ideal choice of partner. Atlantic Computers provides the hardware resources for Failsafe, whilst Intel supplies the operations staff, software, programmers and telecommunications experts, plus the sales and marketing teams.

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Information

Library computer

THE National Library of Wales is using a computer system to provide an on-line network for the input, search and output of information in both the Welsh and English languages.

The equivalent of 12 man years has been spent on the development of the library system which will eventually contain information on 2m printed works in the National Library of Wales. The computer was supplied by Microdata, part of the McDonnell Douglas Information Systems group of companies.

Design

Thermal analysis

THERMAL DESIGN problems in engineering can be solved quickly and cheaply on desktop computers using software called THERM. Introduced by Engineerz Computer Services of Lichfield.

Developed in conjunction with the Rutherford Appleton Laboratories, THERM has already been used successfully in the development of electronic devices for space. More on 0543-58751.

Benefits of the video salesman

THE estate agency business may never seem quite the same again when technology—about to be introduced in Britain—appears in high street shop windows. The new technology, the system is based on available equipment but brought together in an interesting package made possible by the development of one innovative device.

The development is a touch keypad, referred to in this column last year and now the catalyst in a whole range of interesting applications for audio-visual media. The keypad, much like any TV remote controller but larger, operates by capacitance changes whenever touched—in the familiar touch sensitive buttons in lifts. What is different about it is that it will operate through plate glass up to 20mm thick, so that it can be mounted inside shop windows.

A British display equipment company, Canon Davis, is about to launch a point-of-sale system based on the keypad—with estate agents as an initial market. The window-mounted keypad can be made to control any kind of audio-visual display, and is already being used with interactive video discs. Associated with the system can be a text generator with a memory provided by either a 32k microchip—offering say 100 "pages" of 30 words each—or micro-computer with substantially greater capacity. A simple alpha-numeric keyboard allows the shopkeeper or estate agent to change or update the text whenever necessary.

In its most obvious application, linked to a video disc player, the text display can be superimposed on a TV screen over pictures retrieved from the video disc. The window-mounted keypad allows passers-by to control the equipment, merely by touching the glass over appropriate keys chosen from an index on the TV screen or in the window.

The estate agency application employs, however, a novel twist. Out goes the video disc player and in comes a new version of the Kodak Carousel slide projector. This model (S-RA-2500) provides random access to any of the 80 slides loaded in the carousel.

In the estate agency application, Canon Davis will offer complete display unit with TV monitor (for text displays), keyboard for "writing" the text, touch keypad and videotex

generator (with 32k chip or micro computer). A separate back-projection screen with the Kodak Carousel provides the pictures.

In use, the estate agent will be able to take pictures of property (using, for example, the new Kodak instant slide film) and type in on the keypad associated text for display on the TV screen. The passer-by is given the opportunity, via the text display, to select on the keypad numbers representing specific types of property—while the slide projector will then display on the screen. If the viewers' interest is serious, the keypad can also be used to record (on micro disc) a "phone number" on which the agent can call back a potential buyer—thus allowing the system to work round the clock, outside office hours.

Other innovative ideas incorporated in the system can include a polarizing filter over either screen—its angle of

under domestic lighting conditions.

Some TV rental companies are likely to be offering, along with CCRs, audio-visual display equipment using the new touch keypad. Canon Davis is in discussion with the major chains, who need such products to jack up the falling rental market in VCRs and colour receivers.

Another display device Canon is developing is a street kiosk containing touch keypad plus video disc players, monitors and text generators. These will be sited strategically to provide public information services as well as local advertising—even a second run for national TV commercials.

A similar idea can be seen already at work in 510 post offices, where another company—Realmeath—have provided TV consoles programmed by ordinary VCRs. Current programmes include both public information material and paid-for advertising spots.

Realmeath is the company that pioneered the point-of-sale video disc console through a project commissioned by Mothercare. There are now 83 Mothercare retail stores thus equipped and the scheme is now in its fourth year, providing customers with interactive access to product displays and retail sales with training programmes.

Good news for Thorn EMI is Realmeath's belief that in certain new installations VHD may be a better alternative to the Laserdisc currently used in Mothercare stores. Although VHD is much cheaper to install and is backed in UK by a nationwide servicing network through Radio Rentals.

Interactive video is the catalyst in these public display systems, enhanced by the British-invented shop window keypad. With projects such as the estate agency service, the 35 mm slide could also experience a renaissance, ironically because of video technologies.

No hope, however, for the 8 mm film once favoured by the travelling salesman in his portable desk top projectors. Soon, the salesman of the future may have a CCR in his briefcase; not only to make his recordings in the field for market research, but even to show customers simple product movies through the TV viewer or on a mini-monitor. *John Stirling*

Video & Film

BY JOHN CHITTOCK

polarisation set to minimise daylight reflection when viewed at pedestrian height.

The next step for estate agents will be to use the new combined video camera-recorder to offer customers a moving picture survey of more expensive houses—viewed on a VCR in their own homes. Ferguson recently reported to dealers that sales of their own branded Videostar version using VHS-C cassettes, are outstripping supply. In readiness for this boom, the clumsy name "cam-corder" is by common consent at a recent Ferguson press gathering now being publicly abandoned—and by further consent replaced with my own offering, CCR (for camera cassette recorder).

The CCR is going to have a significant impact on commercial applications such as selling property, providing the facility of a moving picture notebook complete with sound—that is extremely easy to use, even

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Contracts and Tenders



LEMBAGA LETRIK
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National Electricity Board of the State of Malaysia
Sungai Piah Hydroelectric Project

CONTRACT NO. 29535/4
GENERATING PLANT AND ASSOCIATED ELECTRICAL
AND MECHANICAL EQUIPMENT

Applications are invited from Manufacturers for registration as Tenderers for the above named Contract.

(A) This Contract comprises the design, supply, delivery, erection and commissioning of the following equipment for two power stations—

1. Upper Power Station (surface type)

Two (2) Pelton type horizontal axis, twin jet, single wheel hydraulic turbines each rated at 7400 h.p. under 253.5 metres net head at 375 rpm and complete with governor system.

One (1) high pressure steel penstock complete with branches to turbine inlets.

Two (2) horizontal axis hydroelectric generator units (synchro-indoor type) each rated at 6.8 MVA C.M.F., 11.0 kV, 50 Hz, 0.85 p.f. at 375 rpm complete with static excitation system, control rectifier, protective relaying and fire protection.

One (1) electric overhead travel powerhouse crane (span approximately 16 metres) with single trolley. Main hook rating is approximately 40 metric tonnes and auxiliary hook rating is 5 metric tonnes.

Two (2) spherical type inlet valves each of 800 mm nominal bore with water hydraulic operators.

Power station ancillary electrical equipment.

2. Lower Power Station (underground type)

Two (2) Pelton type vertical axis, twin jet, single wheel hydraulic turbines each rated at 26,100 h.p. under 397.3 metres net head at 428.6 rpm and complete with governor system.

One (1) high pressure steel penstock complete with branches to turbine inlets.

Two (2) horizontal axis hydroelectric generator units (synchro-indoor type) each rated at 34 MVA C.M.F., 11.0 kV, 50 Hz, 0.85 p.f. at 428.6 rpm complete with static excitation system, control rectifier, protective relaying and fire protection.

One (1) electric overhead travel powerhouse crane (span approximately 15 metres) with single trolley. Main hook rating is approximately 75 metric tonnes and auxiliary hook rating is 5 metric tonnes.

Two (2) spherical type inlet valves each of 1200 mm nominal bore with water hydraulic operators.

One (1) single hook electric overhead travel crane (span approximately 5 metres) located in valve chamber. Hook rating is approximately 25 metric tonnes.

Power station ancillary electrical equipment.

(B) Applicants shall be manufacturers or consortia of manufacturers of the items described and should have had previous experience of the design, manufacture, erection and commissioning of equipment having the characteristics described.

(C) Full details of manufacturers' experience and technical and financial competence must be forwarded with their application not later than the date stated for the receipt of applications to:

Chief Engineer (Hydro Projects)
Lembaga Letrik Negara Tanah Melayu
Hydro Electric Division
120, Jalan Bangsar
P.O. Box 11002
Kuala Lumpur
Malaysia

accompanied by a registration and document fee of M\$500 (Malaysian Ringgit Five Hundred) International bank draft or money order drawn payable to LEMBAGA LETRIK NEGARA TANAH MELAYU, which shall be refunded only to applicants not accepted for registration.

A copy of the application and submittal shall also be sent to:

Project Manager
Sungai Piah Hydroelectric Project
Shawinigan Engineering Company Limited
620, Gloucester Boulevard West
Montreal, Quebec, Canada H3B 1M8
Telex No. 55-00845
Cable Address: SHENCO, Montreal

Tender documents will be issued by:
Project Manager
Shawinigan Engineering Company Limited

(D) Tenderers are advised that those who show evidence of intention and interest to counterpurchase Malaysian goods and commodities directly from Malaysian companies in Malaysia will be given preference in awarding of this tender. However, LEMBAGA LETRIK NEGARA TANAH MELAYU is not bound to award the tender based only on the counterpurchase intention and interest.

(E) LEMBAGA LETRIK NEGARA TANAH MELAYU is not liable for costs incurred by applicants in preparing applications nor will it be liable for any costs incurred in the preparation of tenders.

(F) LEMBAGA LETRIK NEGARA TANAH MELAYU is not bound to accept any application or to accept the lowest or any tender.

(G) Tenders shall be delivered at the head office of LEMBAGA LETRIK NEGARA TANAH MELAYU, 120 Jalan Bangsar, Kuala Lumpur, Malaysia. The exact date and place for submission of tenders will be specified in the tender documents.

Last Date for Receipt of Applications: May 2, 1985
Tender Documents issued: about September 1, 1985
Tender Due: about December 1, 1985

SPANISH COMMERCE

Tom Burns reports on the expropriation and reprivatization of a sherry empire

Spanish socialists keep their promise on Rumasa

IN RUMASA'S end is its beginning. Almost all that remains of the conglomerate that Sr Jose Maria Ruiz Mateos built up into Spain's largest non-utility private holding is the sherry business with which the errant tycoon started back in 1958. The socialist administration that expropriated Ruiz Mateos Sociedad Anonima (Rumasa) in February 1983 has, over the past two years, stripped the holding down to the bone selling its banks, hotels, real estate, department stores and other assorted assets back to the private sector.

The expropriation and the subsequent reprivatization of Rumasa has been a carefully stage-managed saga that will undoubtedly stand as a major point of reference when examining the record of Prime Minister Felipe Gonzalez's first two years in government. The double move has paid high political dividends and provoked a complex economic fallout that has neither been fully assessed yet nor, much less, digested.

Not least among the paradoxes in all the Rumasa affairs is that a socialist government has been doing out the plums to the highest bidder with a zeal not seen in Spain since liberals and free traders last century got their hands on monastic properties. Nationalisation has been a dirty word throughout the saga. To add insult to injury, public money has been pumped into the holding to make the sale to the private sector palatable.

According to Sr Javier del Moral, the chairman of the Patrimonio del Estado, the Finance Ministry agency that has managed Rumasa since its expropriation, the holding will be totally wound up before the summer. By then the sherry companies will have been sold along with the remaining assets and all that will be left will be Rumasa's data centre, a building packed with computers sited in a low-income dormitory suburb on the western outskirts of Madrid.

Despite the compulsive reprivatization policy, Sr del Moral and the government intend to hang on to the sophisticated data centre. The Finance Ministry has decided that it will be useful for processing value added tax when it is introduced in Spain makes its hoped-for accession to the European Community. Primed to pulling in Vat returns, the former Rumasa computers might help to recoup the Pta 460bn (\$2.5bn) that Sr

del Moral estimates it has cost the Spanish Exchequer to manage, refloat and resell the holding.

The political pay off is like having one's cake and eating it. The socialist government was able to show its radicalism by not hesitating to expropriate and then its moderation by choosing to reprivatize. In the process, Spanish business received the fright of its life and the scare was altogether salutary. The state takeover of Rumasa marked a watershed: business up and down the country learnt that books had to be kept in order.

Sr Ruiz Mateos, the founder, chairman and chief shareholder of Rumasa—he held 50 per cent of the stock and his four brothers and one sister held 10 per cent apiece—was expropriated because his empire was on the verge of collapse. The government ordered the unprecedented move after a head-on collision between Finance Minister Miguel Boyer, who demanded a consolidated audit of accounts for the whole conglomerate, and a vacillating Sr Ruiz Mateos, who refused a negotiated intervention of his banking division.

There was a straight economic justification for the expropriation. The government said it acted to contain the damage caused by the mismanagement by Sr Ruiz Mateos to protect jobs, bank deposits and the shareholders of companies in which Rumasa had a stake. Within nine months of the move, accounting firm Arthur Andersen, which had acted as co-ordinator for 18 firms going through the books of the different branches of Rumasa, produced a consolidated audit of the group for the government. This showed a negative net worth of Pta 257bn.

Investigations into Rumasa also unearthed the biggest capital evasion scheme undertaken in Spain. To escape the increasing vigilance of the Spanish authorities Sr Ruiz Mateos had in the two years prior to the expropriation set up a network of assets outside Spain, known as Rumasa "B". Investigators found major violations of currency regulations as deposits from Rumasa banks were channelled abroad to shell companies in Panama, Liechtenstein and elsewhere, to numbered accounts in Switzerland and to offshore holdings that were outside the formal structure of the group.

Sr Ruiz Mateos, who left Spain secretly after the expropriation, is currently in West Germany awaiting a hearing of an extradition request brought by the Madrid authorities. He has been charged with fraud, tax evasion and breaking currency regulations. A team of lawyers acting on his behalf in Madrid has meanwhile successfully applied to the Constitutional

merate was supposed to be a network of all 775 companies. Sr del Moral found that 380 were virtually non-existent and solely figured as companies on the commercial register. These he wound up.

A further 150 companies had only a small Rumasa participation, and in some cases gone at all, and these were taken out of the conglomerate and left.



Sr Jose Maria Ruiz-Mateos (left), the founder of Rumasa, and Sr Miguel Boyer, Spain's Finance Minister

Tribunal, Spain's supreme court of appeal, for a reconsideration of a December 1983 ruling by the tribunal which narrowly judged the expropriation to have been legal.

Politically the expropriation move was popular with the electorate. It showed Sr Gonzalez and his young incoming socialist government to be decisive and determined not to be cowed even by the most spectacular tycoon in the country. There was no doubt about who was in charge.

The more lasting message was the government's moderation. It told the business and banking community, who knew very well that Rumasa was foundering, that it intended to reprivatize and it has kept its promise. If there were any suspicions about nationalisation policies, secretly harboured by the Prime Minister and his cabinet, the reprivatization killed them stone dead.

Sr del Moral, put in charge of reselling Rumasa, first set about cutting the group down to its real size. The conglom-

erate was supposed to be a network of all 775 companies. Sr del Moral found that 380 were virtually non-existent and solely figured as companies on the commercial register. These he wound up.

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Thanks to the expropriation/reprivatization saga, the Mallores-based hotel chain Sol (Hoteles Mallorquines Agropados) has emerged as far and away the dominant group in the Spanish holiday business.

A feature of the Hotasa purchase was that Sol acquired it through a consortium with the Kuwait Investment Office (KIO) in which the Spanish company holds a 70 per cent share. The immediate precedent for the Kuwait stake, which was negotiated by the Spanish-Arab bank Aresbank, was the sale of Rumasa's Banco Atlantico to a consortium formed by the Arab Banking Corporation (ABC) (70 per cent), the semi-state Spanish bank, Banco Exterior (25 per cent) and Aresbank itself (5 per cent).

The "so-called" "big seven" Spanish banks never expected Atlantico to go "foreign" and one of their clique, Banco de Bilbao, the fourth largest Spanish bank in deposit terms, confidently expected to buy it.

When the sealed bids were in, the government smoothly explained that Atlantico was going to the ABC lead consortium, which had presented the best offer with an investment of over Pta 13bn.

By selling Atlantico to a majority non-Spanish group the Government was able to bulldoze the Spanish banks into parcelling up among themselves the small, loss-ridden Rumasa banks, that were critically exposed to the Rumasa companies. It was sufficient to put the word out among the Spanish bankers that there was a keen foreign interest in entering the retail business.

The package sale of 17 Rumasa banks to a total of 12 Spanish commercial banks last summer highlighted the major funding that has been necessary to offset the accumulated losses of the expropriated holding. It also underlined that the cost of the operation will be felt by the foreseeable future both by the banks and by the Government itself.

The crux of the sale was that the purchaser banks were obliged to subscribe a Pta 440bn special Rumasa bond issued by the government at a negative spread. The bonds, for 12 years, will carry a 9.5 per cent interest and were transferred directly to the Rumasa banks.

In addition to Banco Atlantico the most publicised foreign capital penetration, as a result of the expropriation, was the sale just before Christmas of the group's high street department store chain, Galerías Preciados. This was bought by the Venezuelan holding Diego Cisneros. As in the case of the group's premier bank, the reprivatization of the stores presented a perfect opportunity for the establishment of a retail base in Europe. The new Cisneros management at Galerías Preciados talks in terms of a European bridgehead for the multi-interest Venezuelan concern.

There have been other instances of non-Spanish purchases of Rumasa assets, notably the acquisition of the group's prestigious supermarket chain, Mantecueras Leonesas, by a West German co-operative that is closely linked to the Social Democrat Party. But Sr del Moral rejects the suggestion that foreign concerns were given the edge in the Rumasa sale.

But Sr del Moral admits that the foreign penetration that has evidently resulted from the reprivatization simply reflects what has been the trend in Spanish business for the past decade. Put simply between 1940 and 1955 Spanish business was run by the state, from 1955-75 it was run by the Spanish banks and from 1975 onwards non-Spanish capital took on the torch.

In this sense the sale of Rumasa assets has underlined the stagnation of Spanish business, fearful of investing domestically, and the extreme caution of Spanish banks the prime concern of which is to slim their portfolios, preferably by selling to foreigners. Rumasa belongs to an earlier age of Spanish optimism in national growth.

Now that the once spectacular holding is virtually back to its sherry vineyard beginnings there is a chance for a degree of perspective. The whole saga has meant a strengthened government but a more impoverished exchequer and a less Spanish economy.

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THE ARTS

Capuleti/Covent Garden

Rodney Milnes

The Royal Opera might have been tempting fate in reviving Bellini's *Romeo and Juliet* after last season's surprise success, so soon: lightning after all, seldom strikes twice in such quick succession. In the event, although boots and feet are distributed very differently from last time, the evening as a whole proved almost as successful, and in one or two respects a great deal more so.

Last time it was the conductor, Riccardo Muti, who revealed a score far more exciting than most of its suspected and, in so doing, distracted attention from Pier-Luigi Pizzi's safely routine production. This time it is Michael Schonwandt, making his conducting debut at the Garden, who provides the routine. The nervous energy generated by his predecessor, through the tense little acromioclavicular figures and careful shaping of Bellini's distinctly morbid lyricism, is almost entirely lacking, and so are the crystal clear orchestral textures: Mr Schonwandt conducts the music as though it were merely pretty (which much of it is), not as though it were dramatic. Sadly, too much of it once again sounds trivial.

But, vocally, all is gain this time round. Although Tetiana Troianos apologised for a throat infection, its effects were noticeable only in patches of cloudy tone early on. Her mezzo is

more evenly distributed than that of Agnes Baltsa, last season's Romeo: free at the top, powerful at the bottom (with discreet but effective use of chest register), and with no discernible join in between. She sings most musically and presents a proud, upright hero with an appropriately Byronic profile.

It is heart-warming to report that Katia Ricciarelli, after some unhappy evenings in London, was absolutely on top form as Juliet: indeed, I do not believe she has sung so well here before. Strain that has sometimes dogged the top of the voice was notable by its absence: her luscious tone expanded upwards to glorious effect. But this, of course, is precisely the sort of repertoire she should be singing, rather than dotting roles like *Alcina*. Her one and that of Troianos blended perfectly. Their exquisite singing in the finale coincided with the moment that Mr Schonwandt started belatedly to discover what the score could yield: the evening ended on a note of triumph.

Keith Lewis's easy, mellifluous Tybalt (the top ideally free and unchained), Matthew Best's concerned Laurence and a confident last-minute substitute, Richard Van Allan's implacable Capulet completed a fine cast. Vocally, an evening to remember.

Miriam Makeba/Festival Hall

Max Loppert

To anyone who grew up in South Africa, a certain time, the sound of Miriam Makeba's voice and the sight of her face draw a gut response as surely as no other performer before the public can. Attendance at the Festival Hall on Monday night (which set off a week of GLC Arts in Danger events) was therefore obligatory — it was, after all, her first concert in London for at least a decade. But it was good, during one of the most joyous evenings in recent memory, to have a revelation of artistry of a kind that needs no similarity of audience background to appreciate its quality.

It's been a long time since those early appearances in dim Johannesburg night clubs, since *King Kong* and the *Click Song* swept her from the obscurity to larger fame. Miss Makeba long ago took up residence elsewhere in Africa, and has become a performer of the most polished address and control representative of a broader African musical spectrum — the introductory appellation, fulsome but not unjustified, gave her to be "the African Empress of Song." At the start, one wondered whether a patina of international showbiz might have settled on her act; and for a short while the question remained unanswered, as song smoothly followed song, spoken introduction pattered deftly away, and the back-up work of her (excellent) six-man band (led by Al Sanders from Guadalupe) indicated international professionalism rather than specifically African musical scent.

But it was for a short while only. For Miss Makeba showed soon enough that beneath the surface poise she has retained intact her particular, and particularly South African, vitality — her feeling for the despair-torn-into-joy of township dance rhythms, her tragic innocence one moment while delivering a barefoot lament or Hugh Masekela's "Soweto Blues," her hilarious wide-eyed mastery of suggestive nuance the next while outlining even for the linguistically uninitiated

the overt sexual content of the *Plata-Plata* ("a township celebration of some of the possibilities of Saturday night"). The content of the songs and their introduction drew the attention inescapably toward the eternal national tragedy; yet it was not a concert of agit-prop.

For our pleasure Miss Makeba had also with her, as chorists, dance group and soloists in their own right, a trio of extraordinarily multi-talented South African women under the group name of Shikuba.

The *Click Song* had to be heard, of course, and Miss Makeba made of its introduction a delicious moment of feckery. There isn't, there can't be, any false nostalgia in her programme; points are made solely through the native gifts of one of the world's greatest living entertainers, and I was supremely grateful for the chance to watch and hear her and them in action once again.

Night, Mother/Hampstead Theatre

Michael Coveney

Here's one to cheer you up. A woman prepares to commit suicide in her mother's kitchen. The peculiar thing about *Night, Mother* is that it challenges the idea of the privacy of suicide. Those of us who have not succeeded in the attempt, of course, cannot vouch for Norman's accuracy. My only suspicion is that it would take Dostoevsky himself to do justice to the theme.

Jessie Cates has arrived in a comfortable Middle American domestic interior, full of kitchen cupboards and floral cushions that evince a positive aroma of familial stability (design by Sue Plummer), to give her mother a manicure and herself a bullet in the head. As in the best of Norman's plays, the reality over when it begins. But what has brought Jessie to this pretty pass?

Unlike Ibsen, Ms Norman settles for grisly titillation rather than tragedy, eliciting the odd galloway guffaw whenever Jessie goes on about checking batteries for the radio, tidying up the garbage or leaving instructions for the laundry. Jessie has merely had it up to here, and to the fustling sister-in-law, the wants to give a big "get lost" to the husband who left her, the child (we never really know why him), her epileptic fits, the Red Chinese, optimism — "the way things are," no less.

Soonest gone, soonest mended is about the whole total of my emotional response to all this. The selfishness, the drama, the pain, the tragedy of suicide, none of this is touched on. From the minute Susan Wool dridge, washed out and hair in a ponytail, starts listing details like the washer repair number you know she's a lost cause.

Marjorie Yates, one of my favourite actresses, looks mournfully on throughout all this and even delivers the best line on reflecting that her husband was no loss, especially on his deathbed: "It was his last chance not to talk to me and to be took full advantage of it." Michael Attenborough's production falls to supply a convincing American drama and, after *The War at Home*, one begins to worry about his choice of new American drama. An outing to Howard Johnson's is surely not, as Miss Yates suggests, without irony, a dream ticket, and the retreat to the faithful bedroom is preceded by a feeble inadequate show of maternal resistance. My only fear — and a real one — was that the gormless Jessie had missed said that we would have to return after an interval to hear why Ma was deciding, not unreasonably, to call it a day.

On *To Buffalo* with the appropriately breath and leggy hooding by a large chorus line. (977 0020) *Tea and Sympathy* (Helen Hayes): Harvey Fierstein's ebullient and touching story of a drag queen from backstage to loneliness incorporates all the old traditions in between, down to the confrontation with his dying Jewish mother. (944 0450) *Dreamgirls* (Imperial): Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop group, a la Supremes, without the quality of their music. (239 5200) *Brighton Beach Memoirs* (Neil Simon): If he wasn't sure before, playwright Neil Simon can expect a long run of his funny as well as touching childhood reminiscences now that the New York production has been so generously decided to name the theatre after the generation's outstanding box office draw. (237 9440)

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Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

THEATRE

NEW YORK

CHICAGO

LONDON

On Your Toes (Palace): Rodgers and Hart's 1936 musical is a genuine tonic. American jazz dance routines, including *There's a Small Hotel*, *Blues for Unhappy* and the *Belonging* to the *Swing* for *Swing* on *Tenth Avenue*. (427 6834)

On the Razzle (Absolute): Michael Leavitt directs the local debut of a musical comedy about a man who is a con man. (237 5252)

Notes Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blake's brilliant direction of backstage antics runs on four wheels. A third-rate farce is a key factor. (836 8888)

Two Into One (Shaftesbury): Donald Sinden and Michael Williams head the cast of a bluey-eyed farce by Ray Cooney in the old Whitehall tradition. An Irish manager, Lionel Jeffries, declares: "There's far too much sex going on in this hotel, and I'm not having any of it." Not to be missed. (379 5390)

Waste (The Pit): Eminent RSC revival directed by John Barton of Granada. Barker's 1907 one-act play about a politician destroyed by an adulterous liaison leading to an abortion, a death and a suicide. Daniel Mays, Judi Dench, Charles Key, Tony Church and Mark Dignam in a stellar cast. (836 8755)

Notes Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blake's brilliant direction of backstage antics runs on four wheels. A third-rate farce is a key factor. (836 8888)

Television/Godfrey Hodgson

Taking aim at the snipers

Cannon to right of them, cannon to left of them: like the *Light Brigade* at Balaclava, the marines of the BBC are stormed at with shot and shell. Their centre falls back, their right is in retreat, so — like Marshal Foch, "excellent situation" — they attack.

They have been compelled to ask for the £65 licence fee, and there is a serious question whether they will get it. If they don't, it will mean more presiding over a steadily-widening differential between already shabby-genteel BBC salaries and those in the commercial sector; more co-productions; and declining prospects of maintaining the superb standards that are what attracted them to the BBC in the first place.

Worse, it is not only a question of money: it is a question of love, or of the passing of love. Morale at the BBC is low. For the first time in 60 years, the corporation can no longer count on virtually automatic support from a powerful lobby of the serious-minded.

The ideology of the day is sceptical of the very principle behind the claims made for public service broadcasting. The government of the day is profoundly unsympathetic. Fields that were tiller peacefully by generations of producers, secure in the knowledge that they need never go out to plough with a frontman's rifle slung across their back, are now within range of the snipers' bullets.

Even the unmentionable has been mentioned: the spectre of advertising stalks Television Centre. And now, *Dallas* is being

In this moment of supreme danger, like the British Fourth Army on the Marne in 1918, the beleaguered defenders have turned gallantly on their tormentors and launched the counter-attack. The masterstroke, it seems, is Michael Grade, fresh from his laurels in Los Angeles. Terry Wogan is throwing himself into the fray twice weekly, bravest of the brave. But the secret weapon is a serial called *EastEnders*.

It is not, perhaps, likely to attract a high proportion of IT readers, and is certainly not intended to be a small sample conducted in my house on Sunday — consisting of one merchant banker, one hustler and one merchant banker's wife — winced their way politely through half an episode. But that will be water off a duck's back to Michael Grade and producer Julia Smith. At last count, just under 18m people were watching the show; and with ratings like that, top of the BBC charts, who needs the plaudits of the intellectuals?

Having now watched five episodes, I have to say, with as little superciliousness as I can muster, that I like *EastEnders*. Indeed, I might be getting hooked, and not only because I fancy Anita Dobson as the publican's wife Angie, somewhat rotten.

The walls of London may no longer proclaim "Clapton is God" but there are still enough followers of the cult guitar hero to pack out Wembley. In a way, it is a pity that he is still so popular — a snarling snarl would have magnified his appeal tremendously, although, of course, minimising his fee. Guitar pyrotechnics do not spare forthrightly in that forthright manner of a place, and Clapton plays, never his most striking feature, was deadened by the Wembley sound: the

I admire the thoroughness and professionalism with which the campaign has been planned. Julia Smith and script editor Tony Holland seem to have approached the series somewhat in the way in which we see in the war in the Japanese Ministry of International Trade and Industry, plans to wipe out competition in sewing machines or machine tools.

They began by turning loose designer Keith Harris to build an entire fake East London Victorian square — complete with pub and cafe and houses right down to a railway bridge with simulated slime — in Elstree. No expense was spared to reproduce the authentic seediness and decay of what was once the business end of the money really was made.

The writing is being done by a team balanced carefully to include veteran scene-writers from *Z Cars* and the like with new talents, including those of a well-known actor who is trying his hand at writing for television for the first time.

My chief criticism from a technical point of view is the pace. The pace is too slow. Matthew Robinson and his team of directors often cut from one subplot to another at bewildering speed.

But the main difficulty in a serial comes from the fact that you have to create a whole alternative world — credible enough for the viewer to feel that it is still there when he or she switches off. That is where *Coronation Street* has been so brilliantly successful. To do that, and to keep an audience on the edge of its metaphorical chair — not for a half-hour episode, not even for a six-part mini-series — means plotting together a number of threads in a fairly complex pattern right from the beginning. And, even then, it takes time to establish a serial: time for the viewers to feel that they have got to know the characters.

With a stroke of genuine professional expertise, if not of inspiration, the story begins in the very opening minutes with the death of a young, unloved, alcoholic. This makes everyone in the square feel guilty, or at least defiantly unmoved, and later turns out to be murder. The acting, in general, is above praise. I never cease to be amazed at the sheer depth of acting talent on which the television industry can draw. That comes, I suppose from the fact that the theatre, in all its forms, is a genuine popular art in this country.

The apex of the pyramid is high because the base is so broad.

The cast of *EastEnders*, at any rate, is recruited largely from comparatively unknown actors and actresses. Anita Dobson, as the disgraced but indomitable grumpy, Lou, who is at the centre of the knot of characters, is a disfigured exception. Oddly enough I felt Miss Wogan, unlike the others, over-acted.

That, at least, is the theory. But it is really true? Or is it simply devoutly held by the sort of people who take the decisions to buy or to spend money on making television serials? Do they really know what they are doing, these princes who govern over self-image? Or are they imposing on us a patronising picture of their own making? Are they reinforcing a national inferiority complex, or are they helping to create one?

Eric Clapton/Wembley Arena

Antony Thornecroft

lyrics were just fleeting phrases. With Clapton a different figure, dressed like a coolie; a stage set more suitable to a parish hall; and an equally self-deprecating sense of humour, Clapton's genius to lift the evening.

And when he fitfully turns south, in songs like "Way down south," he is still the master of the plaintive rural sound of the guitar. But he seems an age away from today's heroes, with their pretty-boy routines and political positionings, and a rather nostalgic figure. The audience, too, seemed passively, as unmemorable new songs were mixed with sad old blues and rockabilly.

In a crowded honkytonk in Texas, his would have been rousing, living music. At Wembley, it was more a case of a revered superstar going through the motions. Some of them, like his delicate love song "Wonderful tonight," still grip by the main, the low-key performance was swallowed by the arid environment.

Saleroom/Antony Thornecroft

From Victoria to Vienna

Etchings produced in the 1840s by Queen Victoria (and one by Prince Albert) of their young children sold for £9,720 at Christie's yesterday. The Queen was fleetingly interested in drawing, and had Landseer as a teacher. After her enthusiasm waned the album of her works passed to the Duchess of Sutherland, who now contributed to this collection.

Other intriguing items, in a sale of prints, were two etchings by Calverton of rural scenes. The artist did only 20 prints in his life-time and very few have survived. These were unknown before being brought into Christie's among a job lot recently. They sold for £11,840 and £3,780 respectively to the London dealers Arteris and Mendel.

A very rare Meissen group of the death of St Francis Xavier, modelled by Kändler around 1740, sold for £39,600. Sotheby's in a Continental ceramics auction, to Neuse, a German dealer. The price was more than double the top estimate.

The sale totalled £385,201, with 18.4 per cent bought in, which was mainly attributable to a pair of Do Paqueter vases of 1730, unsold at £17,000; and a tureen and cover from the same source, unsold at £10,000.

There is nothing like a high more sellers. In November 1983, Sotheby's in New York sold a portrait of Karl Zerkovsk by Egon Schiele for \$2.4m (£1.6m), a quite exceptional price for the artist.

It coaxed out another work by Schiele, one of his few nudes, which made £3,190,000 at Sotheby's in London last December. Now, on March 26 in London, Sotheby's is selling yet another painting by Schiele, a portrait of his friend, Karl Grunwald. It is expected to make at least £1m.

This is an excellent example of price and fashion marching hand in hand. There is a growing academic interest in the work of the German artists of the early decades of this century, and collecting taste is moving on from pretty Impressionist to the more challenging post-Impressionist and Expressionist art.

Schiele is the leading Viennese Expressionist and his first life (he died of Spanish flu in 1918 aged 28) makes his paintings rare. He completed only eight of his tortured nudes; hence, the very high price paid in December for what will probably be the last to appear on the market. His portraits can also be frighteningly frank, stripping the sitter down to his soul. That of Grunwald is more

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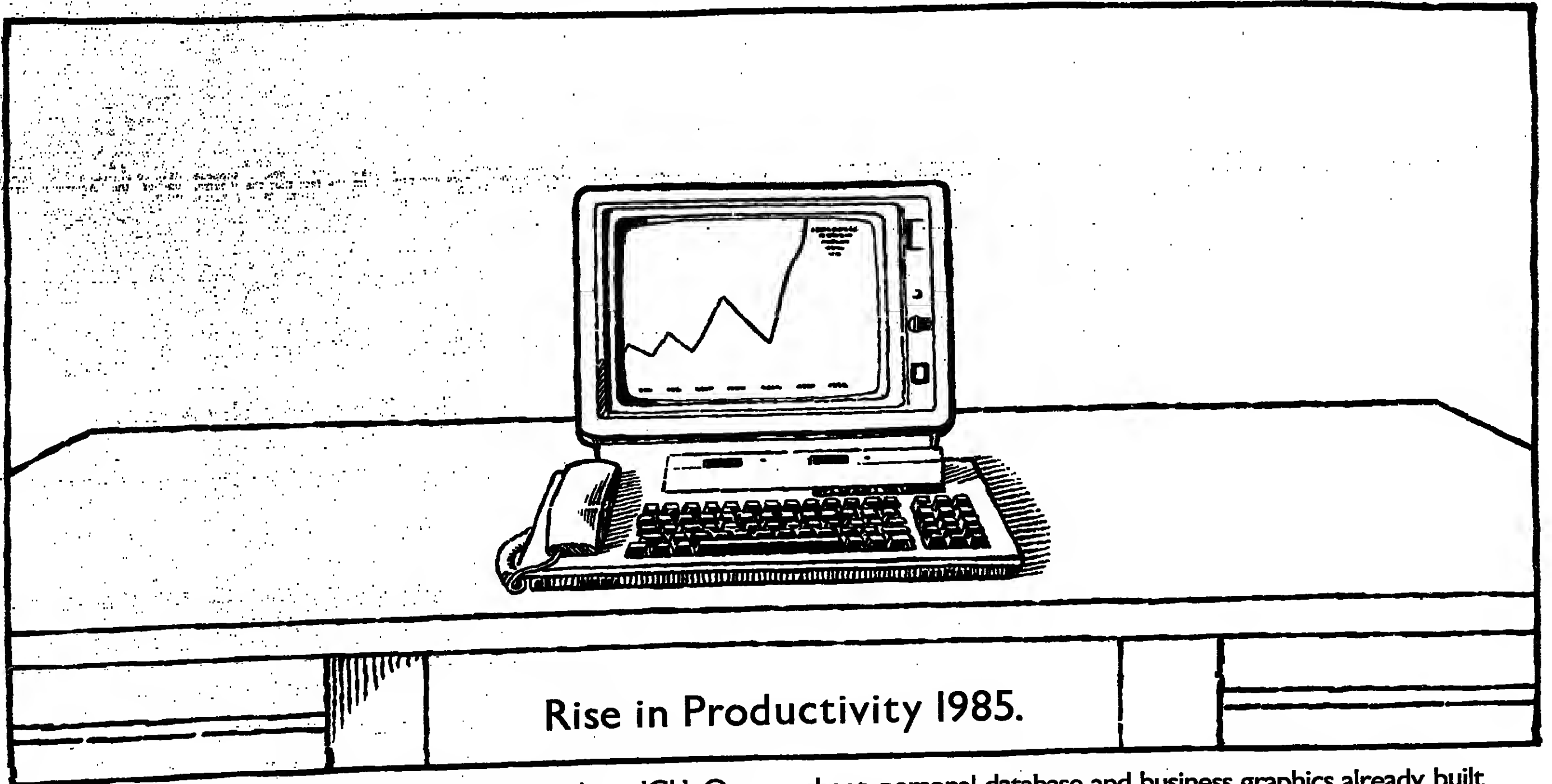
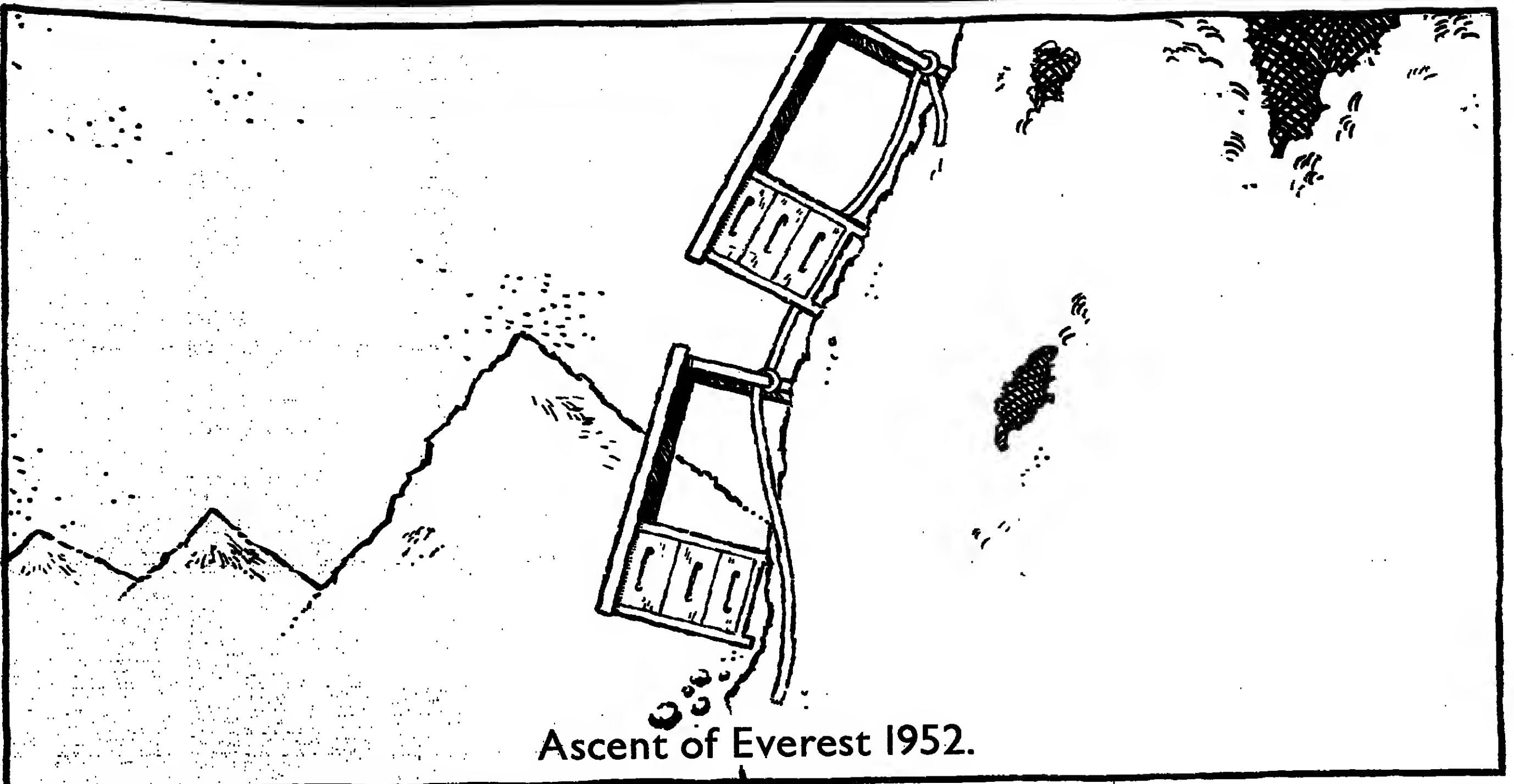
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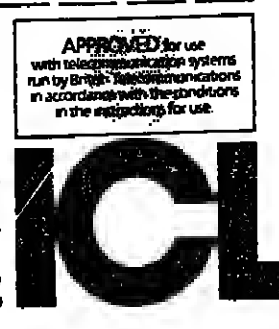
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Wednesday March 6 1985

Controlling defence costs

THE RECENT disclosures concerning delays and cost escalation in the Nimrod early warning aircraft hold lessons for the Government, for parliament and for the public.

The all-British aircraft project was begun in 1977 as an alternative to the American Awacs (airborne warning and control system) then being negotiated as a common purchase by Britain's European allies in Nato. Like the Awacs aircraft, Nimrod was intended to give radar coverage of the new breed of low flying, fast and potentially devastating Soviet fighter-bombers.

The first Nimrod should have been delivered by early 1982, with the squadron of 11 aircraft fully operational last December. Instead, the first aircraft has only just reached the Royal Air Force, which finds the performance of its advanced radar system far from satisfactory. The squadron will not see service for at least two more years, and even then it will probably not do all the RAF originally required of it.

As for costs, the original £306m has escalated to £516m spent so far, with at least £200m more committed to complete a further £200m needed for the full operation. Britain's share in the original Awacs deal would have been about £300m—and Awacs is now in service.

The reasons why Nimrod is so far off course are disputed. The original decision to plump for an all-British aircraft which would incorporate the most advanced radar technology in retrospect looks ill-considered. The RAF preferred Awacs, but British Aerospace had sold the Government some spare Comet airframes, while Marconi (now GEC Avionics) was developing a new radar. At a critical time in 1977, the negotiations on the Nato Awacs were delayed, allowing powerful industrial and political pressures to win the day in favour of the British solution.

Government officials now say that Marconi's problems in developing the new radar should have been predicted: after all, it took Westinghouse nearly 10 years to develop a rather less complex system for Awacs. The company refuses responsibility, saying the MoD failed to give it proper specifications early enough and then started it off with development funds at a crucial time. It seems to be accepted that there were failures of management on both sides, particularly the lack of proper controls at high enough levels in both company and the MoD.

Mr Michael Heseltine, the Defence Secretary, whose

A cure for the steel industry

THE STEEL industry of the European Community has been in intensive care for eight years. It has undergone amputations to help it to adapt to lessening demand for its products. Yet the intention to discharge the patient as fit at the end of this year will not be fulfilled. That is the depressing result of a regime of production quotas, minimum prices and import controls intended to bring the industry to a state where it can dispense with national subsidies from the start of 1986.

That regime has been backed since 1982 by the full authority of the European Coal and Steel Community, which has the considerable powers available to it to shelter the steel makers from competition both within the community and from without. In return, under the Davignon Plan (named after the Community's Commissioner for industry who stepped down at the end of last year), the industry undertook a stringent programme of capacity cuts.

Too optimistic

Though some countries, especially Italy, have lagged, the programme has progressed pretty well as intended. The commission wished 26.5m tonnes of annual rolled capacity to be removed from the 168.6m tonnes installed in 1980. By the end of 1984 21.5m tonnes had actually gone. Plans have been announced which will bring the tally to 26m tonnes. The sad fact, however, is that the initial target was based on too optimistic an assessment of demand. Suggestions abound that another 20 per cent ought to be sliced off the capacities still in existence, once the Davignon cuts have been fully implemented.

It always was doubtful whether planned rationalisation in the form of a cartel supervised and sponsored in this instance by a governmental authority was going to work. The picture now revealed greatly reinforces the case for allowing the pressure of market forces to compel the steel industry to complete its restructuring.

Resistance to such a solution is likely to come from many quarters. The steel industry—as well as its traditions—makes it cartel-prone. When demand is slack the marginal cost of extra tonnage is low, so that the temptation to engage in cut-throat competition is always strong. Cartels, explicit or implicit, often use themselves as the device to avoid such potentially suicidal conduct.

National rivalries within the community complicate the issue. In spite of the declining economic importance, no big industrialised nation seems ready to see its steel industry go to the wall. In addition steel mills often are concentrated in politically sensitive areas where it is hard to find alternative employment. For all these reasons it is probable that some or all of the features of the present community regime for steel will be extended beyond the turn of the year, despite the doubts about their effectiveness.

Amid the many special cases and arguments of expediency the heart of the matter must not be forgotten. The European steel industry will not survive unless it manages itself efficiently and matches capacity to the market.

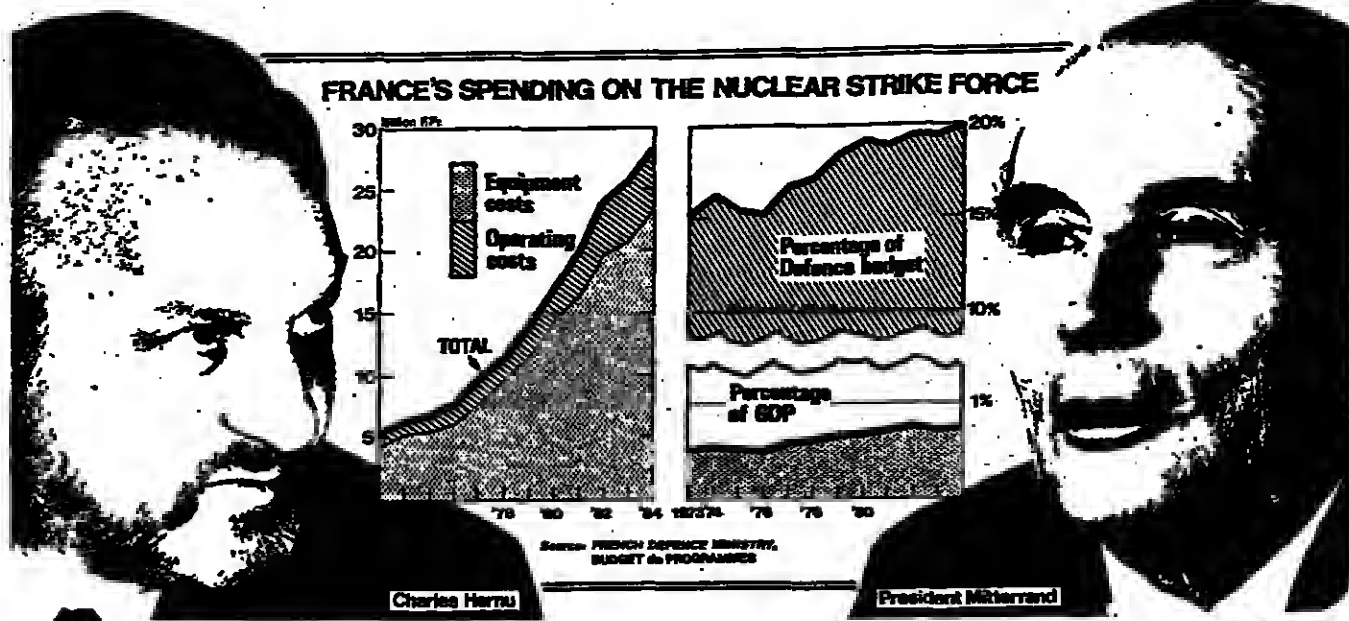
An artificially high price for steel, such as the present regime is intended to bring about, damages the competitiveness of European steel-using industries. And a protectionist regime in Europe only strengthens the hands of those in the U.S. who are trying to protect their own steel industry against European imports.

If the Davignon regime is to be prolonged beyond 1985, firm safeguards need to be imposed. Minimum capacity must be kept low preferably on a declining basis. National governments should commit themselves to a progressive withdrawal of subsidy. The commission should use its powers gradually to relax import restrictions. In the end it is only the pressure to compete and to survive which will force industry to put its house in order.

MITTERRAND'S NUCLEAR DILEMMA

The high price of independence

By David Marsh in Paris



The cost will rise as the Trident programme gets under way.

President Charles de Gaulle, who turned the bomb-making drive into a 'lynchpin of the Fifth Republic' when he returned to power in 1958, admitted then that the nuclear force would probably need 25 years to reach full potential.

Independence, now, just as the force de dissuasion has indeed come of age, technological advances in weaponry, changing perceptions of how a future European war would be fought, and closed military ties with West Germany, have combined to undermine part of the Gaullist doctrine on which the force has been built.

An unchanging theoretical precept of France's system of deterrence 'dun joule ou fort' (from the weak to the strong) is that France can command the means to wreak devastating damage to an aggressor—'to tear off his arm,' Gen de Gaulle said—with only a tiny fraction of the superpowers' nuclear arsenals.

France may, however, have to adjust upwards its definition of what constitutes 'nuclear sufficiency' as a result of anti-missile defence efforts by the superpowers. Advances in space-

based defensive systems heralded by President Reagan's 'Star Wars' initiative could significantly increase the cost of modernising the force de dissuasion in coming years—at a time when French public spending is facing an unparalleled post-war squeeze.

France will soon be deploying this year its new 4,000-plus km multiple warhead M4 missile, carried on the latest nuclear submarine Indefatigable, scheduled to be launched next month, and extended later to the rest of the submarine fleet, designed specifically to combat anti-missile defences already in place around Moscow.

The Defence Ministry claims that whatever the present and prospective advances in missile defence the M4, taking into account progressive refinements in its range, accuracy and penetration ability, will remain credible for the rest of the century.

Nonetheless, French unease has risen in recent months along with the apparent strengthening of the Reagan administration's commitment to the project. President Mitterrand issued a firm denunciation of the 'militarisation of space' in a pre-Christmas TV broadcast,

while M Charles Hernu, the Defence Minister, last month criticised space defence efforts as likely to enhance the general arms race.

Even though European leaders in general have been expressing doubts over Star Wars, France has marked the hostility of its position by being significantly absent from requests from Britain and West Germany that Europe should participate in U.S. anti-missile research.

The U.S. programme has also led to pressures, reflected recently in a report from the Opposition dominated Senate foreign affairs commission, that France should add to its nuclear panoply by building low flying cruise missiles to escape and ballistic defences. Aerospace, the state aerospace concern, already carried out research into cruise missiles several years ago—although further development would be very costly.

There have also been suggestions—made notably in an article in Le Monde yesterday from an anonymous army general—that France should start developing its own anti-missile systems to protect key cities and weapons silos.

In view of the likelihood that the initial spark for any major East-West conflict would come from a Soviet conventional advance into West Germany, another question mark over the future role of the French force has been raised by the growing importance of its shorter range tactical nuclear weapons.

The scope of operation of the deterrent, which under General de Gaulle's doctrine served purely to defend the 'national sanctuary,' has already been enlarged in official statements in recent years to encompass France's 'vital interests' abroad—which implicitly includes West Germany.

Despite pressure from some German politicians for France to spell out in more detail under what circumstances its German-pointing tactical weapons could be used, France is likely to try to remain ambiguous over whether—and how far—the nuclear umbrella really extends east of the Rhine. This is both because it believes that uncertainty heightens the value of deterrence and also, equally pressingly, to avoid any unfavourable political repercussions.

Pressure for more clarity

could, however, grow as the cost, range and number presently around 200 (each of the power of the bomb that destroyed Hiroshima) of France's tactical weapons increases in coming years, as planned under current defence programmes.

M. Hernu has recently 'pre-empted' He has tried to maintain that their mode of operation—to serve as a last resort warning to advancing Soviet forces of imminent firing of France's anti-city strategic missiles—is unchanged from that laid down by General de Gaulle.

In fact, a growing number of French critics, both among politicians and in the armed forces, point out that the tactical armoury is already more than sufficiently powerful to fulfill its 'shot across the bows' role.

One further nuclear dilemma is whether, cut costs and least efficiency, France could usefully collaborate with Britain over nuclear arms without giving up its cherished independence within Nato.

Senior French nuclear officials admit that France would like to gain access to British secrets over dampening the noise of nuclear submarines.

The idea of exchanges of nuclear submarine technology between Britain and French officials, but any deal would be very difficult to achieve politically.

Similarly, French officials in 1982 made overtures to Britain—one senior Aerospace executive even brought up the matter directly with Mrs Margaret Thatcher—about selling the UK the M4 (or the planned improved M5 version) in preference to Trident.

The matter was never pursued seriously. With several other co-operation proposals being pushed by the French, including the possibility of joint satellites, for submarine communications, the fact word, however, has not been heard over Franco-British nuclear collaboration. And the idea could surface with force if a British Government one day decides to cancel the Trident project.

General during 1951 to 1958. Looking back, he says atomic weapons status continues to serve the Gaullist purpose of marking out (and protecting) France from non-nuclear Germany.

The only doubts are shown by M Francis Perrin, for long one of France's foremost nuclear physicists. He played a second stage to M Gaillardet during the 1950s as the CEA's High Commissioner in charge of the CEA's scientific activities.

Overall, the strength of the force de dissuasion is 'irrefutable,' he believes. 'France is so much more vulnerable than the Soviet Union. I don't believe we can play poker with the Russians—they are stronger at bluffing than we are.'

HOW THE FRENCH DID IT THEIR WAY

the nuclear arms club in 1960, continuing opposition from the U.S. above all from Admiral Hyman Rickover, the father of the American nuclear submarine programme, prevented collaboration on a submarine propulsion system after the war, says M Gerver.

Besse, former chairman of metal group Pechiney, and now chairman of Renault. He played a leading role in setting up, from the late 1950s, France's own military nuclear enrichment plant at Pierrelatte, which became operational in 1967. Later he went on to head the CEA's nuclear fuel services group Corgema.

Even after France entered

With French possession of nuclear arms now one of the few areas of government policy which commands a national consensus, the scruples which after the war assailed some U.S. scientists, who as Gen Buchet's No. 2 was the main scientific brain behind France's A-bomb work, says: 'I do not recognise any moral arguments. I knew how to make a bomb, and I made it.'

M Pierre Guillaumat, now 75, the former chairman (between 1965 and 1977) of oil group Elf Aquitaine, masterminded the CEA's bomb-making strategy during his time as Administrator

an atomic literature so that if the bomb project failed, it would not ruin anyone's reputation,' he says.

M Yves Rocard (father of the present Agriculture Minister, M Michel Rocard) who as Gen Buchet's No. 2 was the main scientific brain behind France's A-bomb work, says: 'I do not recognise any moral arguments. I knew how to make a bomb, and I made it.'

M Pierre Guillaumat, now 75, the former chairman (between 1965 and 1977) of oil group Elf Aquitaine, masterminded the CEA's bomb-making strategy during his time as Administrator

matters at the time was limited to an American film on the Hiroshima and Nagasaki bombings. 'They took

The City's policeman

'I've never been a policeman,' admitted Sir Kenneth Berrill yesterday, as he publicly assumed the mantle of the City of London's top regulator. But he sees the role of chairman of the new Securities and Investments Board as being primarily one of promoting London as an international financial centre rather than housing a succession of grandmasters through the Old Bailey.

And if Sir Kenneth, 65 next August, might seem a little old to be embarking on such a challenging new job, it is also true that he can draw on a wealth of experience from a career which has taken in 20 years as a Cambridge economics don, a spell as Chief Economic Adviser to the Treasury, and six years during the 1970s as head of the Government's Think Tank.

His move to the City as chairman of stockbrokers Vickers da Costa might have seemed like a semi-retirement posting but he remarks on 'a much more exciting and unusual five years than I thought when I came here in 1980.'



'Wasn't the pickets that stepped us—nobody could remember the way'

Men and Matters

He summed up his new appointment by saying that he was coming to do a job for a body that did not exist, which at the moment had no money, and for a salary that he didn't know. All the same he was 'very flattered and honoured' to be asked, and it is a fair guess that with the Governor of the Bank of England promising a 'market-related' pay this particular policeman's lot is going to be a relatively comfortable one.

Sir Kenneth had a neat description for his task. 'Regulation is like salt in cooking. It's an essential ingredient—you don't want a great deal of it, but my goodness you'd better get the right amount. If you get too much or too little you'll soon know.'

It is turning into a busy week for Alan Stote, chairman of the CBI's smaller firms council. Today he attends his first meeting of the National Economic Development Council as a new member of the CBI team. Tomorrow his company, BTS Group, starts trading on the USM.

Stote, at 35 one of the youngest ever CBI members, runs BTS with his younger brother Roger. The firm, based in the West Midlands heartland of British business enterprise, was launched in 1982 by their father and partners. It makes tyre remoulds and batteries, and sells exhaust systems.

'If you are going to complain about government policy you have an obligation to try to influence it,' is the reason Stote gives for playing an active role in the CBI and now in NEDC.

The old cart-horse is not the power-house it used to be when

the Government, big business, and the unions agreed to have a monthly scrap. But it still provides a rare opportunity for businessmen to face ministers across a table—and be heard.

Bank's bite

According to chairman and prospective shareholder of the Bank of Washington DC's oldest bank, the National Bank of Washington (NBW), has its own unique form of 'shark repellent'.

The sharks he is talking about are those acquisitive financial institutions poised to move into the district to buy up local banks in anticipation of the day when Washington becomes part of a larger regional banking system.

At present, Washington's banks can only do business within the surrounding 88 square miles. But later this year, Maryland, Virginia and Washington are all expected to pass laws allowing banks to operate across their state and district borders.

Hodges' quiet confidence that NBW will not become a victim of the predators is in part due to the fact that the bank is, he claims, the largest completely uncolonised commercial bank in the U.S.

This helps to explain why dozens of banks which have been approached by New York investment bankers, Goldman Sachs, in recent months, have not shown any interest in buying NBW.

Goldman has been working on behalf of a most unusual seller—the United Mineworkers' Union, which controls 76 per cent of NBW's equity. The union bought its stake in the 1940s when it was led by the legendary John L. Lewis, the then most powerful union boss in the U.S.

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Observer

Letters to the Editor

The outlook for Europe

From Mr R. Rose.
Sir.—M. Riboud's concern for Europe (February 27) strikes me as misplaced. His description of European fatalism and technological incompetence bears no relation to the actual situation and his fears over levels of investment and control of innovation are unfounded.

As an investor, manager, I interview the top management of some 100 major European companies each year and never have I encountered the fatalistic attitude towards technological competitiveness that M. Riboud considers to be so rampant. There are dozens of companies in Europe that lead the world in their fields of technology and if they are being treated with indifference by U.S. laboratories it is at the part of the latter.

Whether in Germany, France, Italy or Finland, it is not difficult to find companies taking on world competition with confidence and winning the battle. Managements exude dynamism and are eager to participate in their own development as investor. With the greatest of respect, might I suggest M. Riboud spends just 10 minutes speaking to the management of Olivetti, ASEA or Schering and you will find he finds management allowances of fatalism about their ability to compete with the U.S. or Japan. If I may quote Mr de Benedetti on his strategy for Olivetti, "In our business there is no future in following a second, or even a third, or fourth company. Either you win or die, we will win." Does this sound like the frightened Europe of M. Riboud?

I find it hard to accept that U.S. companies are as blinkered as M. Riboud's criticism of M. Riboud would have us believe. A company that symbolises America, Coca Cola, has had to turn to a Swedish company, PLAM, to find the technology capable of producing plastic replacement for its aluminium cans. The U.S. motor industry has also turned to Sweden to find robot (ASEA) and bearing (SKF) technologies because none better can be found. Clearly, the eyes of these companies have not been fixed on only the U.S. and Japan.

It is easy to supply other

examples of world technological leadership by European companies, Océ van der Grinten of the Netherlands, leads in command and copying equipment for design engineering, and the German company, Schenck, leads the world in three fields, "soft" detergents, hormonal contraception and sugar beet pesticides, Siemens leads in nuclear plant technology and laser printing and so the list could go on. It would be surprising if by pointing out that France also has its share of world leaders, Essilor dominates progressive lens technology, French cement companies have taken large shares of the North American market with their superior production techniques and companies such as TRT and CSF lead in their areas of defence technology.

These examples are the tip of the iceberg and should be enough to show that there is no reason to be fatalistic about Europe's contribution to scientific and technological advances.

Mr Riboud's broader pessimism about Europe's economic outlook is also exaggerated. It should be pointed out that his first condition for economic growth, inflation, is being more successfully tackled in Europe than in any other part of the world. His concern over the second condition for growth, investment, is also excessive, for the figures he quotes for Europe include public sector investment, while the U.S. figures are for private sector investment only. During the period 1973 to 1983, private business investment in Germany, for example, increased 20.3 per cent against the 2 per cent increase quoted by Riboud. It is hard to see how it could be less. It would agree that in the early 1970s European investment was too low, it has picked up sharply since 1976 and is now running on levels similar to those of the U.S.

It remains certain that the outlook for Europe's economies and companies is very positive and am convinced that few, if any, European managements possess the fatalism referred to by Mr Riboud. Intellectual life is high and the best articles such as Riboud's do nothing to dent it.

Robert Rawe,
90 Bishops Road, SW6.

Change is inexorable

From Mr. A. Just
Sir,—It seems that this incalculably damaging miners' strike was destined to happen. As though fate dictated that we should go through a bloody letting. But no, we must not believe it was unavoidable.

In all the public statements I have heard one side has kept repeating through the papers that the National Union of Miners "saves pits, jobs and communities!" The other has repeatedly insisted that management must have the right to manage. I have seen a little public discussion that the NCB fully acknowledges the reality of mining communities' concern for their future beyond a levelling gear, and willingness to try back their jobs or offer similar work elsewhere.

Structural change in society is an inexorable process but if we are to have a harmonious society, the values and traditions are to be preserved it behoves those with great power over the destinies of whole communities to impose their will in an equitable and responsible manner.

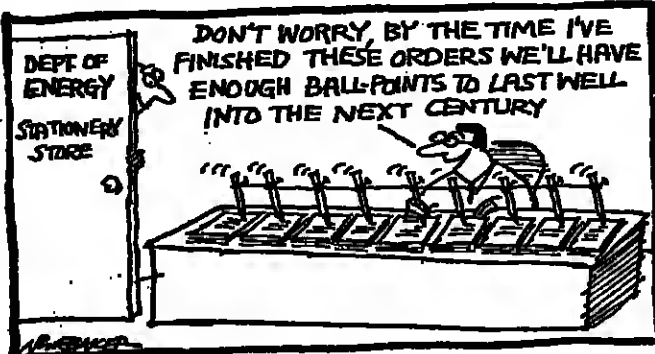
above all, effective manner.

The rise of Scargillism was an early warning of an inadequate management approach. It was the NUM President who was elected largely on his skilful exploitation of well founded rumours of a closure "hit list" (note the pejorative term) and the fears of loss of petrol to help recall any positive public NCB campaign to explain its plans and prepare those affected. Only evasive platitudes or a silence equivalent to freezing of petrol to help Mr Scargill stoke the fires of fear. The fire only raged and the nation has paid and will go on paying the price.

This most expensive ever lesson in how not to conduct industrial relations must at the very least remind us of the breadth of vision and wisdom required in the industrial management of technical and social change.

Alec Just.

22, King George Avenue,
Buxteh, Watford, Herts.



Very much to the point

From the Head of Information, Department of Energy.
Sir,—Robin Pauley (Lombard February 28) states that the Department of Energy has stockpiled enough ball-point pens to last 15 years.
It may be a good story but

Commercial buy

not a true one. As I write, the Department's ball-point stock is 2,927 black, 2,490 red, 1,515 blue and 187 green—a sufficiency but not enough of any colour to last 15 weeks let alone 15 years. Romola Christopherson, *Thomas House South, Millbank, SW1*.

Commercial buying power

From the Director-General, Food Marketing Administration: "This federation shares Sir Leslie Porter's belief (March 4) that the prime objective of the food industry as a whole is to work in a united way in the interests of the customers, the consumers. For that very reason this federation is anxious that genuine worries among its members should be brought out into the open. These worries are mainly about the potential for unfair trading which concentration in grocery retailing can give rise to. We believe that the best way to bring about a new link in the food chain is to operate harmoniously together. Sir Leslie is of course entirely right in saying that the 1937 Mergers Commission report on discounts retailers did state that the prevailing conditions at the time did not operate to the detriment of public interest but that such a situation was sufficiently

cerned about the pace of concentration and the potential risk to the public interest, insist on a close watch over mergers in retailing and wholesaling.

On the market share question used by the M and MC most related to 1978. Since then there has been a substantial growth in the market share held by the major multiples and we therefore welcomed the decision of the Director-General of Fair Trading to n-date the figures and bear evidence of confidence in the retailing picture.

On the trading problems there may be experiencing.

Our belief is that the overall situation is not as healthy as it could be. We very much hope our colleagues in retailing will be able to identify all our interest, theirs, ours and the consumers, to promote it trading throughout the "food chain".

(Sir) Jeremy Moore,
6, Catherine Street, WC2.

The early-leaver problem

From the President,
Society of Pension Consultants:
I am greatly disappointed by Eric Short's comments (February 28) on the report recently issued by the Institute and Faculty of Actuaries. This report was confidential, and its leaking has created a serious problem for the Institute. The so-called "poor treatment" of the early leaver by pension schemes arises because of the shortightedness by Farnley in imposing a new tax on benefits that have already been paid. There is no doubt that the early leaver is in less than satisfactory conditions.

There is no imprecision over the calculation of transfer values in relation to the Social Security Bill. The bill is technically perfect, as Eric Short comments on later in his article. That transfer values will represent the discounted value of the deferred pension. The object of the report now issued is to

point out that, given that concept, transfer values will not match the expectation being created in the minds of the public.

It is quite untrue to say that accountants use optimistic assumptions when calculating transfers and pessimistic assumptions when calculating benefits to be granted in return for receiving a transfer value. I have never known of actuarial assumptions being juggled in order to make a profit out of an early leaver.

The failure of a benefit granted in respect of a transfer value to meet expectations does not mean financial responsibility is the rule, nor exactly the same source as the inability of preserved benefits to match the expectations had the individual started with his employer.

Brian
Ludgate House,
Ludgate Circus, EC4

World trade in textiles

From the Managing Director,
Central Confederation of
Textile Industries in the
Federal Republic of Germany.

Sir,—I read Mr Martin Wolf's letter (February 26) with great interest and would welcome the opportunity of making some remarks on it.

While I do not dispute that there is a totally abstract and purely theoretical point of view, quota rents in some supply countries can conceivably raise prices that can be charged by competing producers elsewhere, practising all the empirical evidence that the price-raising effect of the Multi-Fibre Arrangement is grossly exaggerated. Prices of clothing products have risen less quickly than the general retail price index. According to Eurostat, the general index (1975=100) was 227.5 in 1983 and that for clothing was merely 202.4. The problem of quota rents arises in so far as a few countries that support umbrellas under which other suppliers can raise their prices is, in reality, not existent. Due to the wide spread under-utilisation of quotas, cheap countries (including other countries) are not industrialised countries as the second and third generations of suppliers among themselves) are not constrained at all in order to make such alleged price increases possible.

try. China can well afford to subordinate price calculations to its higher national interests in order to procure the needed foreign exchange for the financing of ambitious industrialization plans in other sectors. If one adds the impact of the subsidised imports of raw materials from Hong Kong, it is quickly apparent that Hong Kong has an enormous head start in textile trade. Hong Kong already has the largest share of allocations of the quota. As it has already changed its position a little, it is by far most important clothing exporter in the world.

In spite of the WFA, the effects of the imports of low cost textiles from Hong Kong on the EEC textile sector have already been devastating (these imports have been one of the most important factors that have in the past meant a capital-intensive process during production processes). Any further liberalisation will thus most certainly require more sacrifice from the EEC textile sector.

I would also like to comment on Mr. Wolf's suggestion of a rise in the EEC's external tariff rate as a substitute for quantitative restrictions. I am afraid that such an idea, although it has some theoretical appeal, because of its apparent necessity, would not be of any great practical value to be very substantial in order to adequately compensate for the maintenance of the tariff.

As far as Hong Kong is concerned and the rather bitter formulated reproach by Wolf that, in spite of its ostensibly liberal trade policies it is still—and hence unjustly—being subjected to import quotas I must point out that Wolf has forgotten to take account of the extremely close economic ties between Hong Kong and the surrounding countries, first and foremost China. It is no secret that Hong Kong has been (and is) working vigorously continuing the best possible (be it cheap imports, be it raw material, or even foodstuffs, or even goods of a war processing, etc.) of the geographical proximity to China. As a state trading

in world textile trade. Problems would also arise from the fact that these tariffs would be applied to the same products vis-a-vis other industrialised countries. They would, moreover, probably wipe out the guaranteed market access that the really poor developing countries currently enjoy as a result of the former favour to underdeveloped countries, already highly competitive suppliers and the EEC "preferential" countries.

Under the present circumstances, a system similar to the MFAs seems to be the only practicable and sensible solution. Dr. Konrad Neundoerfer, 6 Frankfurt 70, Schussmilch Kai 87.

Altogether jarring habits

From Mr P. Merrill
Sir,—I awaited with interest the response to Mr Connolly's view (February 26) on the beer glass. Mr Devendish (Feb 27) has presented the view of the intellectualist but does not apparently have access to the real reasons behind this traditional British subculture.

Had he taken his beer at Handsworth, Hicken or Bordesley (the former being important districts of larger conurbation) then he would understand the importance of taking his beer from a straight glass. It is by far safer and more hygienic than frequently having beer served in a mug which is chipped; whereas the straight glass must be discarded immediately when damaged. The risk of damage to the vital drinking organs is considerable when using a "chipped" mug. Far more portable, however is the pneumatic taste and flavour achieved when applying the tongue to the "thin glass."

On the other hand, bad taken ale with Broughton Park Bedford or Bath beer. I understand the importance of a handle to "hang on to" and "hang on to" and "hang on to."

consumption the security of
handle prevents the gl
should from the weak
should the grip ever gra
(The glass is of course h
correctly without use
handle.) A second advantage
that the glass can be sat
under the arm (with
held in the correct manner)
is to prevent unnecessary s
lage during periods of
crowding of the bar.

But, perhaps most import
of all, both Mr. Connold and
I should recognise that
they are being asked to cho
their weapons when be
offered their choice of gl
Should matters in this c
hostile manner, it is diffi
eventually out of hand t
they may well need to cho
between defending themse
with the jagged thin glass
which one may draw from
one's opponent or alternatively
use the heavier jaw with w
the opponent may be rende
unconscious.

Perhaps problems of
nature do not arise in the
south.

Peter Merrill.
Hope Cottage, Macclesfield
Prestbury, Cheshire.

The constant imperialists

From Mr. C. Douris
Sir, "And it difficult
reconcile Sir Thomas Baze
was (February 28) that
Russian leaders consider
pansion rationally with
suggestion that they
paranoid about exte
threats.

Since about 1300 Muscovy
extended its territory con
tinually by conquest and ann
tion. Although there have b
occasional and temporary
versals of that expansi
throughout most of the i
vening seven centuries
Muscovite empire has bee

its greatest extent to date is today. That its neighbors have so often felt severely threatened is hardly surprising, and could help to explain why the empire has been attacked from time to time.

Considering the Russian propensity to aggression, it has up to that into Afghanistan suspect that the attribution of paranoia is just a Freudian excuse for rapacity.

Colin J. Dauris, *Its neighbors, Goodalls, Middle Street, Nazeing, Essex.*



A serious case of nuclear allergy

By Robert O'Neill

FOR THE greater part of the life of the Atlantic Alliance, it has been in some kind of internal dispute or disorder. The Anzus alliance, only three years younger, has been spared such turmoil. Even so, General Whitford, in his room, when he led Australia's first Governor in 23 years into office in 1972, caused only a brief flutter in Washington. When Whitford, the new Zealand Government's man on nuclear-armed and propelled warships entering its ports, serious concerns have arisen. Anzus may be terminally afflicted.

Three questions arise: why did the Lange Government adopt this policy; why does it matter; and what can be done about it. On the first, we must look to a concurrence of several causes to explain the change. It has nothing to do with neutralism, non-alignment or the Soviet invasion of New Zealanders see themselves as part of the West in political, economic, social and cultural terms. Rather we must look more to a re-examination of the threat from troubled regions and the ease with which ideas can flow from elsewhere in the West.

Since the U.S., Australia and New Zealand withdrew from the Vietnam war, it has been difficult to interest New Zealanders in the proposition that their country faced direct threat to its security. It has been like Australia, a possible problem on its doorstep such as relations with Indonesia and seems protected by Australia against anything so close to its shores as South-east Asia or the Indian Ocean.

The Western nuclear alliance of 1951-82 quickly spread to the South Pacific and, in the most hospitable political climate, to Japan. There, too, it flourished in 1983-84. There was little of the rallying effect

A serious nuclear

By Robert

produced in the Atlantic Alliance after the shooting down of the Korean airline by the Soviet walk-out at Geneva and Western INF deployment. Rather the simplistic view took hold in New Zealand that nuclear weapons, not government policies, were the real danger. Ergo, keep them out of New Zealand and it will be a much safer place.

This philosophy took hold in left-wing Labour circles in New Zealand and soon crowded out the "old-fashioned" view held on the right of the party that in the nuclear age, security is best achieved by deterrence based on alliance strength and cohesion. A new leadership, with little experience of international affairs, was soon convened. The new policy was also convenient in that it helped to reduce friction with the left.

Why does it matter? Not because of any great intrinsic value of New Zealand's ports to the United States. From Washington's perspective the issue is essentially a security one (stating and correcting) a bad example. From Canberra's viewpoint, the problem gives rise to domestic disorder, particularly between Mr Bob Hawke, the

Case of allergy

by Robert O'Neill

centrist Prime Minister, and his peace's strong left-wing supporters on this issue by the new Nuclear Disarmament Party.

The wider implications, as perceived in Washington, are relevant to Alliance relations in Europe and East Asia. The strength of the U.S. deterrent posture in the Pacific rests essentially on sea and air power, and for its continued effectiveness the U.S. needs access to naval and air bases in Japan and the Philippines. The anti-nuclear opponents of Mr Yasuhiro Nakasone are taking a keen interest in the New Zealand affair. The U.S. is concerned that consequences could flow which would torpedo the delicate arrangements whereby U.S. naval vessels, widely thought to be nuclear-equipped use Japanese ports. There has long been public controversy in the Philippines about U.S. use of Clark airfield and the Subic Bay naval base. In the present state of Philippines politics, the U.S. is not anxious to see any further difficulties raised there.

Similar American concerns regarding the way in which European allies, particularly Belgium, the Netherlands, Denmark and Greece, approach their obligations are also a recurrent requirement for comment. Unintentionally, Mr Lange has offered to the Reagan Administration a challenge with global implications.

The most difficult question is

that to do about it. The U.S. cannot be expected to ignore the problem. The proposed remedies might not make the situation worse. Again the implications are serious: a major hurdle in handling New Zealand can face the United States, not only in New Zealand but also in Japan and Europe. There are already several Third World states following the lead-lines of New Zealand.

Direct American economic retaliation is obviously likely to prove counter-productive past the point in time when it begins for administering discipline is through reduction of existing defence connections. The problem with this approach is that in the first place it does not mean that America wishes to see enhanced, namely a strong New Zealand regional defence capability. Furthermore, the Lange Government is not immune to the effects of such pressures as irrelevant. More scope for pressure is offered by the Congressional battle over U.S. imports, but again a possible New Zealand backlash in New Zealand and elsewhere may result from any measures which really hurt.

Rather American strategy in this episode should be designed to win, on the long term, through persuasion rather than sharp punishment. In this approach, the Reagan Administration seems likely to revive support for co-operation from Australia and Britain. Mr Lange and his party are not about to change their minds tomorrow, but in the next two years they must face the voters. Therefore, the authors in the book there will be middle-of-the-road New Zealanders. They are the people that New Zealand's allies must bear in mind as they plan the moves in the immediate future.

The author is director of the International Institute for Strategic Studies, London.


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THE SIGN FOR REFURBISHING

JAPAN'S FINANCE MINISTRY DOES ABOUT-TURN ON POLICY

Offshore banking idea endorsed

BY JUREK MARTIN IN TOKYO

THE JAPANESE Ministry of Finance (MoF) reversing its policy of recent years, has publicly endorsed the creation of an offshore banking centre in Tokyo. That would allow foreign financial institutions to operate on Japanese soil without being bound by national exchange or monetary controls.

The MoF's change of heart was made clear yesterday by Mr Toyoo Gyohken, director general of its international finance bureau, who said: "If Tokyo is going to emerge as a major international market, then it should have the main facilities available in other important markets."

Mr Gyohken was speaking after the publication of the recommenda-

tions of the Foreign Exchange Council, a special committee formed last year to study further means of internationalising the yen.

The Council, under Mr Yoshihiro Inayama, head of the Keidanren or industry confederation, has called for an "intensive study" of proposals to establish an offshore facility. That, it argued, was necessary if Tokyo was to become a genuine international financial centre as well as to "increase the efficiency of Japanese businesses in raising and managing their funds."

An offshore centre in Tokyo has been a subject of debate in Japan for several years. It has always had its supporters within the MoF, al-

though they have never been in a majority, but has met strong opposition from the Bank of Japan - which, as the country's central bank, has argued that offshore activities would make implementing monetary policies more difficult.

Mr Yusuke Kashiwagi, chairman of the Bank of Tokyo, has been appointed to head the subcommittee that will make the study of the proposed centre. The subcommittee - set up as an offshoot of the Foreign Exchange Council - will receive the co-operation of MoF.

The MoF appears to favour a centre run along the lines of the New York international banking facility rather than the more integrated model of the City of London.

The U.S. arrangement preserves the distinction between offshore and onshore or domestic operations. "Very few" in MoF like the London model because it presupposes a dismantling of domestic regulations that could not and would not be achieved "overnight," Mr Gyohken said.

One area that could very quickly fit into any Tokyo-based offshore scheme is the call, or short-term, market in U.S. dollars - estimated to involve some \$50bn.

"I am quite sure that such transactions as short-term dollar ones will be shifted to the offshore market," Mr Gyohken said.

Nakase weakened, Page 3

Mitterrand may seek vote to boost his authority

By David Housego in Paris

PRESIDENT Francois Mitterrand is considering holding a referendum on either the enlargement of the EEC to include Spain and Portugal or the election of a president of the Community by universal suffrage.

Obviously, the reason would be to boost President Mitterrand's image by gaining a positive vote on a question which could command a majority in the country, while helping to advance the political integration of Europe to which he feels personally committed.

Such a referendum, if it were to be held, might strengthen President Mitterrand's authority when national elections this month and parliamentary elections in March next year both look like weakening it by showing that the Socialists have little more than 20 per cent of the popular vote.

French officials yesterday described as well founded reports in Le Monde suggesting that the President was considering the two possible questions on enlargement and a Europe-wide elected presidency.

Both Charles de Gaulle and Georges Pompidou as presidents used the referendum as a means of testing popular opinion, and Mitterrand has said he sees it as a possibility.

A referendum on a popular issue might also capitalise on the recent rise in President Mitterrand's personal popularity and that of M. Laurent Fabius, his Prime Minister, in the opinion polls. The further advantage of a referendum on Europe is that it would divide the opposition.

In practice the referendum proposals run into strong objections. The idea of a vote on an elected presidency for Europe would require the agreement of France's partners to the proposal.

In the case of enlargement, it is by no means sure that a majority of Frenchmen are in favour. But the issue itself of a referendum on the issue helps to explain the shift in French policy at the Franco-German summit last week towards hastening enlargement by linking it to the increase in Community resources.

President Mitterrand clearly intends that any vote on Europe would be in the context of a renewed momentum towards political integration. In that context he spoke last week of launching a "series initiative" on Europe - a statement that was echoed by Chancellor Helmut Kohl of West Germany, who also spoke of both leaders' personal commitment to the issue.

Among the ideas President Mitterrand has in mind is a proposal to convene a "Messina conference" to review European institutions and the working of the Treaty of Rome. The Messina conference of 1955 prepared for the EEC's creation.

Nuclear dilemma, Page 14

THE LEX COLUMN

When rights are not enough

Even optimists in the City of London were left gazing at National Westminster's 1984 profit, which put down a daunting marker for its competitors. A pre-tax increase of 30 per cent to £671m was surprising enough, but even more striking was the deterioration in the bank's balance sheet which accompanied this apparently glowing performance. If this can happen to NatWest in a year when it has already had a rights issue, the less well-capitalised clearers may have problems indeed.

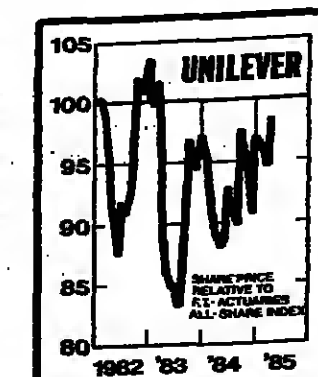
Most of the trouble can be blamed on the Chancellor of the Exchequer's phasing-out of capital allowances and is essentially a one-off - though NatWest's tax will remain slightly above the national rate for a couple more years. But the effect in 1984 was to take £570m in deferred tax out of retained earnings. So despite doing so well at the pre-tax level and raising £220m in a rights issue last year, shareholders' funds have actually shrunk by £242m. With the strength of the dollar artificially swelling its balance sheet, NatWest must feel as if it is walking the wrong way up an escalator. Its free capital ratio has fallen from 5.0 to 4.5 per cent and its free equity ratio from 2.7 to 1.7 per cent - well below the level which usually suggests an imminent rights issue.

Unless the dollar falls sharply, NatWest will have to slow down its balance sheet growth until it can rebuild its capital base through retentions. These, in any case, may be harder to come by this year. Commission income, with Midland's and TSB's moves to free banking, cannot continue to grow at 32 per cent; domestic margins will narrow further as the bank has to fund more at money market rates; and staff and equipment costs are likely to rise faster than inflation.

The cost of fighting it out with Procter - in a market where national brand launches can cost \$50m a time - is bound to hold back U.S. profits in 1985, and slow the group's overall advance, even if Lever resists Procter's recent counter-attack. But this can be defended as a worthwhile investment in future growth, complementing businesses. The process of selling off peripheral activities could go on almost for ever in a group of this complexity; £60m below the line seems a modest amount to provide for the whole programme.

Unilever

The Unilever share price has been very strong for months past, particularly since the Brooke Bond takeover played its part in convincing the market that Unilever had moved into one of its occasional periods of managerial aggression. It is clear, however, that nobody came close to estimating the 20 per cent increase in pre-tax profits that Unilever was about to publish for 1984. Even the past year's slide in sterling profits past the £1bn barrier recent-



thoroughly consistent with the group's policy of withdrawing from tyre manufacture and should have a marked impact on the structure of its balance sheet. The disposal would involve a book write-off of perhaps £20m but that is scarcely significant in relation to the cash proceeds and debt elimination which between them could wipe £150m off consolidated borrowings. And while North America has been a useful profit contributor in the lean times, the interest on the cash received should comfortably outweigh the lost earnings this year and next.

BTR, meanwhile, would find itself bidding for a slightly better capitalised group - all things being relative - short of one of the assets which made Dunlop attractive in the first place. BTR will no doubt argue that Dunlop is deliberately rushing the deal and, as a forced seller, stands to receive a knock-down price for its asset. But Dunlop's own shareholders will scarcely grumble at the sight of their balance sheet being improved by the sale of a tyre manufacturer.

Mr Big

Yesterday's appointment of Sir Kenneth Barrill as head of the new Securities and Investments Board brings to an end the most popular City guessing game of 1985. The game itself has been a mixed pleasure. The list of candidates who were both qualified and available for the job always appeared rather short, and by protracting the selection process the Bank of England encouraged the view that no one was on it at all.

So the emergence of a figure as well respected as Sir Kenneth is a considerable relief. He has consistently viewed the City with a detached and sceptical eye, and his knowledge of Whitehall geography is quite an asset in the circumstances. What he lacks in financial experience should in theory be made up by the presence of Mr Martin Jacobson as part-time consultant. But, while the City has obtained as competent a policeman as it could reasonably have expected, the structure of the force as a whole still looks ill-conceived. The arguments for retaining two regulatory bodies are extremely thin and it is simply not realistic to suppose that the City can be effectively policed by people on two-year secondments.

Dunlop

The dispute between BTR and Dunlop has been simmering gently for a full week, so it was inevitable that something would turn up before long to raise the temperature. The proposed management buyout of Dunlop's North American business should bring it back to boiling point in no time.

From Dunlop's point of view, the deal could hardly be better. It is

Ford unions 'seek productivity deals to avert cuts in Europe'

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT, IN GENEVA

TRADES UNION leaders throughout Europe are in a race against time to head off a big cut in Ford's production capacity. Mr Boh Lutz, chairman of Ford of Europe, said yesterday.

Recent hints that Ford might have to close capacity have been heeded, he claimed, and unions are now asking Ford what must be done to prevent closures and redundancies.

Mr Lutz suggested that if a change of attitude among the unions enabled Ford to improve effectiveness and productivity, the company could "go for volume" to improve its profitability in Europe, rather than by cutting costs.

Mr Lutz insisted that Ford of Europe had been profitable in 1984 - exact details will be announced shortly - and had done better than its arch-rival, General Motors, in Europe last year.

However, Ford's profit was no-

where near enough to cover necessary future investment.

Ford had been whittling away at its cost base, Mr Lutz said. Ford of Europe's workforce has been reduced from 140,000 to 105,000 since 1979, "without any drama," and every future product programme had been studied carefully to see whether it could be cut or was duplicating something being done elsewhere in Ford's worldwide operations.

The moment had arrived when "something much more visible" to the outside world would have to be done, however. Mr Lutz said that Ford was considering whether to "cut vertically" and close down a factory, or to "cut horizontally" by moving some plants from double to single-shift working. Either move would result in heavy job losses.

"Nobody likes having surgery, they keep taking aspirin, and hoping the pain will go away," Mr Lutz

said. "But we must improve our cost base to increase our profitability."

Mr Lutz, who returned as chairman of Ford of Europe last summer, said the company would finalise its next five-year strategic plan in June, so the unions did not have much time to persuade it to change tack.

However, if by offering such changes as more flexible working practices the unions enabled Ford to improve productivity, the company would certainly reconsider a potential closure programme.

Ford's main car assembly plants in Europe are at Cologne and Saarbrücken in West Germany, Dagenham and Halewood in Britain, Genk in Belgium and Valencia in Spain. A small plant at Lisbon assembles cars and Transit vans for the Portuguese market. The main commercial vehicle facilities are at Genk and at Langley and Southampton in the UK.

Renault drops Soviet project

BY OUR PARIS CORRESPONDENT

RENAULT, the French automobile manufacturer, has pulled out of a project to build an engine plant in the Soviet Union that might have brought the company orders worth FF1.6bn-FF1.7bn (\$240m-260m).

Renault said last night that it had abandoned the project because of the Soviet Union's failure to follow up an earlier agreement with firm equipment orders. The group signed a contract worth FF1.3bn with the Soviet Union in November 1983 to design a new car. The contract was to have been followed by orders worth FF1.1bn for machine tools and other equipment.

In a reflection of the differences that emerged in implementing the agreement, the French Communist Party has of late accused the company of dragging its feet over a deal that might "provide hundreds of jobs" in France.

Renault last night blamed the Soviet Union for "difficulties" over the

design agreement and "uncertainties" over equipment orders.

Moscow has paid the FF1.3bn involved in the design contract but has been seeking improved financial terms for the FF1.1bn machine tool and other capital equipment orders for the Moskvich car plants.

The Soviet Union said it could get similar equipment more cheaply from Fiat of Italy and Volkswagen of West Germany.

AF reports from Tokyo: Eight Japanese companies are preparing bids for constructing contracts worth ¥1,000bn (\$3.85bn) for four Soviet petrochemical plants, Japanese company officials said.

Chiyoda Chemical Engineering and Construction said the Soviet Union invited Japan to enter bids for the projects after Japan-Soviet economic talks last January. The talks were the first between the two countries since Japan imposed sanctions against the Soviet Union

over its crackdown on Poland in 1981.

He said the Soviet Union would begin negotiations on the projects soon among bidders including companies from Japan, Britain and France.

Chiyoda said the four bids involved construction of a plant near Budennovsk in the Ukraine capable of producing 250,000 tons of ethylene a year; a nylon plant producing 50,000 tons of nylon-66 fibre annually in Kursk, south of Moscow; a polyester plant with annual capacity of 50,000 tons in nearby Blagoveshchensk in the Ural region; and a vinyl chloride plant capable of manufacturing 250,000 tons of polyvinyl monomer and 180,000 tons of caustic soda near Zima in the Baykal region.

Each project will cost from ¥200bn to ¥300bn. Soviet plans call for completion of the plants by 1988.

Dunlop nears buyout deal for U.S. offshoot

BY MARTIN DICKSON IN LONDON

DUNLOP Holdings, the UK rubber group, is in the final stages of negotiating a \$120m management buyout of its U.S. subsidiary - a deal that would give the company a powerful new weapon in fighting off the £33m (\$35.6m) bid from BTR.

Dunlop is understood to have reached agreement in principle on a buyout with the management of Dunlop Tire and Rubber, led by its chief executive, Mr Randall Clark, and to have arranged much - although not all - of the financing of the deal.

The subsidiary, a specialist tyre manufacturer with 1983 sales of £273m, would be sold for around \$120m, although it would also retain debts of \$60m. Taking into account tax charges, the net gain to Dunlop would be around £150m.

If the sale goes through, it will inject a vital new element into the

takeover battle. BTR's terms have been accepted by only 0.26 per cent of Dunlop shareholders and the company is under pressure to raise its offer, which stands at just half Dunlop's share price on the basis of last night's close of 45p, up 1p on the day.

Divestment of the U.S. operations and the resultant strengthening of Dunlop's financial position would put even greater pressure on BTR to pay more - even though the sale of the U.S. subsidiary might make Dunlop rather less attractive to it.

BTR's offer has already been extended for two weeks, which expire tomorrow. It has repeatedly complained about a lack of financial information from Dunlop.

Dunlop, for its part, is preparing a revised refinancing plan.

See Lex

Alcatel in high-tech link with Fairchild

BY DAVID MARSH IN PARIS

ALCATEL THOMSON, the French state-controlled telecommunications group, announced yesterday that it was to join forces with Fairchild Industries, the U.S. aerospace and electronics company, in manufacturing and commercialising satellite communications services and equipment.

The accord is one of the most far-reaching series of American high-technology link-ups put into place recently by Alcatel and associated companies in the nationalised Compagnie Generale d'Electricite conglomerate.

One of the prime aims of the agreement will be to allow Alcatel access to the key U.S. markets in satellite communications. The French group has established a strong position in manufacturing satellite earth receiving stations on

the back of the French space programme.

The accord, which will lead to the establishment of four jointly owned operating subsidiaries, will give the French company access to Fairchild space communications products for worldwide marketing.

Alcatel will take 20 per cent stake in two Fairchild satellite communications companies, while Fairchild will take the same share in two similar companies in the Alcatel group. The reciprocal stakes in the companies - with capital of a few million dollars each - could be raised to 40 per cent.

Mr Philip Schneider, senior vice-president at Fairchild in the space communications division, said the association with the French company "would help expand rapidly our involvement in telecommunications products and services."

Brazil in \$750m trade deal

Continued from Page 1

Nobara Sociedade de Mineracao, Comercio e Industria, owned by two brothers of British origin, Sr Francisco Walker and Sr Fernando Walker, has won a contract to supply four deep-sea oil platforms, against stiff competition from the U.S., Japan and South Korea.

Nobara entered the platform construction business four years ago. Previously, its only major success had been an order in 1981 from Aramco, the oil consortium operating in Saudi Arabia, for four small prospecting platforms.

Sr Francisco "Frank" Walker said yesterday that delivery of the ex-

ploration platforms to the Soviet Union would begin in two years' time and be concluded in 1989. Nobara is understood to have an option on the construction of a further six platforms.

He was unable to disclose the value of Nobara's part of the deal, but said that the overall package included many other goods, including steel and sugar.

Under the arrangements worked out with the Soviet Union, Petrobras will import the crude and simultaneously make progress payments in cruzeiros to Brazilian suppliers.

Apart from Nobara, these are likely to include the Instituto do Agucar e Alcool, the state sugar authority, and Siderbrás, the state steel group.

Trade between Brazil and the Soviet Union, which is heavily in Brazil's favour, has been in the doldrums for the past two years. Brazilian exports reached their peak of \$689m in 1983.

Traditionally the leading goods imported have been soybeans and meat, refined and raw sugar, cocoa beans and frozen chicken. Soviet exports to Brazil have consisted largely of crude oil and small quantities of heavy machinery.

World Weather

Location	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud
Algeria	19	SE	50	London	10	SE	10	SE	50
Amman	17	SE	50	Madrid	15	SE	50	Madrid	15
Amman	17	SE	50	Paris	11	SE	50	Paris	11
Amman	17	SE	50	Rome	14	SE	50	Rome	14
Amman	17	SE	50	Sofia	14	SE	50	Sofia	14
Amman	17	SE	50	Tel Aviv	18	SE	50	Tel Aviv	18
Amman	17	SE	50	Tokyo	15	SE	50	Tokyo	15
Amman	17	SE	50	Warsaw	10	SE	50	Warsaw	10
Amman	17	SE	50	Zagreb	10	SE	50	Zagreb	10
Amman	17	SE	50	Zurich	10	SE	50	Zurich	10
Amman	17	SE	50						

Readings at midday yesterday. C-Century, D-Degrees, F-Fahrenheit, S-South, W-West, SE-South-East, SW-South-West, NW-North-West, NE-North-East.

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SECTION II - INTERNATIONAL COMPANIES

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TAKEOVER WILL HELP 'GLOBAL BUSINESS STRATEGY'

NEC absorbs Honeywell operations in Japan

BY TERRY POVEY IN LONDON

NEC, one of Japan's leading computer manufacturers, has announced that it has taken over Honeywell Information Systems (Japan), the main marketing arm of the U.S. computer major in Japan.

Mr Tadashi Sekimoto, president of NEC, said that the takeover would help the two companies develop their "global business strategy."

In March 1984, Honeywell, NEC and Bull in France signed an agreement on the marketing and licensing of large (mainframe) computers. At the time this was seen as the drawing up of an international pact between the major makers of computers not compatible with IBM.

According to Honeywell, the reason for the disposal of its subsidiary is that "a small company in Japan cannot be as effective as the large

NEC in servicing our customers." The new company, called NEC Computer Systems, will sell both NEC and Honeywell machines.

Yamatoki Honeywell, the U.S. company's control systems subsidiary in Japan, is to remain a separate company.

Eastman Kodak, the world's largest photographic products group, and Chicon Industries, a major Japanese camera group, have signed a joint manufacturing agreement under which Chicon will produce 35mm cameras to Kodak specifications which will be sold under the Kodak name.

As part of the agreement, which the two companies described as "a co-operative business relationship," Kodak will purchase 2.5m Chicon shares, equivalent to about a 9.5 per

cent stake. Kodak said the share purchase would be conducted in stages and estimated the value of the equity deal at between \$13m and \$14m.

The agreement will bolster existing links between the U.S. group and Chicon, which has manufactured lenses for Kodak equipment in the past.

Kodak added that it might also manufacture the new cameras - which will not be introduced before 1986 - at its apparatus division in Rochester, New York. Mr Ronald Heidke, Kodak's vice-president and general manager of the group's consumer products division, said that both companies would participate in the design of the products, with Kodak concentrating on the design of the lens.

Assets of ESM frozen by U.S. court

By Terry Dodsworth in New York

A FLORIDA district court judge yesterday froze all the assets of ESM Government Securities, a Miami-based securities trader, as auditors scrambled to assess the scale of recent trading losses run up by the firm.

The judge's move followed a court order obtained by the Securities and Exchange Commission (SEC), the U.S. regulatory body, appointing a receiver to ESM after the firm ceased operations. According to the SEC filing, customers may be facing losses of between \$250m and \$300m.

The collapse of ESM is the latest upset to hit the burgeoning government securities market in the U.S. and will undoubtedly spur the efforts of the Federal Reserve Bank of New York to tighten its controls on dealers.

The Fed has been trying to reach agreement with dealers since the fall of Drysdale Securities and Lombard Wall three years ago, followed by the collapse of Lion Capital last year. In recent proposals to the securities industry, the bank suggested that a standard formula should be adopted for testing the liquidity and the capital adequacy of dealers.

The SEC's move to appoint a receiver at ESM was coupled with legal action alleging a variety of violations of anti-fraud provisions under the securities regulations.

The main victim of ESM's difficulties is believed to be American Savings Loan Association of Florida, which has said that it may suffer a "substantial loss," although it expects to remain in sound financial condition.

The losses relate to repurchase agreements. Under these sort of contracts, common in the government securities sector, debt instruments are sold to dealers like ESM for later repurchase at a discounted price. ESM took a large volume of securities from American Savings,

Royal Bank of Canada's earnings down by 2%

BY ROBERT GIBBENS IN MONTREAL

ROYAL Bank of Canada, the country's largest chartered bank, reports a 2 per cent decline in earnings in the first quarter ended January 31.

Domestic business showed lower returns year to year, but international profits improved sharply.

First-quarter net income was \$128m (\$90.4m), or \$1.13 a share, against \$129m, or \$1.10, a year earlier. Average shares outstanding were 95m against 88m.

Return on average assets was 0.58 per cent against 0.61 per cent a year earlier but up from 0.48 per cent in the final quarter of fiscal 1984.

Domestic earnings were \$57m, down \$24m year to year, reflecting the high level of non-performing loans and intense competition. Re-

turn on domestic assets was 0.55 per cent against 0.73 per cent.

International earnings were \$34m, up 71 per cent from a year earlier, due to higher cash receipts from non-performing loans and strong performance by money market and merchant banking activities. Return on assets was 0.58 per cent against 0.38 per cent a year earlier.

Average total assets for the quarter were \$89.5bn, up from \$84.2bn a year earlier and \$88bn at October 31 1984.

The bank said that consumer loan growth in the latest quarter was satisfactory, but growth in commercial and corporate loans was slow, both in Canada and abroad. The "obstinately high level"

of non-performing loans in Canada adversely affected spreads.

Loan loss experience for fiscal 1985 is estimated at \$3670m, down 10 per cent from 1984. The bank continues to make substantial additions to general reserve for country lending, which is reflected in the loan loss estimate.

The portion of loan loss experience charged to first-quarter income under the five-year averaging formula was \$315m, up \$21m from a year earlier.

Non-interest expense rose 3.1 per cent during the quarter and was in good control, the bank said. Capital position was strengthened during the quarter by issuing of \$310m of new equity under the dividend and share purchase plan and internal generation of \$64m of capital.

Deere and GM look at joint venture

By Our New York Staff

GENERAL MOTORS, the leading U.S. motor group, is considering a joint diesel engine manufacturing venture with Deere, the world's largest agricultural equipment company.

In a statement yesterday, the two companies said that they had already decided to implement a distribution agreement which would permit each company to market selected diesel engine products made by the other "as soon as possible."

The discussions reflect the aggressive moves large U.S. manufacturing groups are now making to cut their costs by rationalising production. Deere, in particular, is struggling to make economies wherever possible in the face of the worst crisis in U.S. agriculture since the 1930s.

Citibank takes legal action on loans to 11 Rio alcohol mills

BY ANN CHARTERS IN SAO PAULO

CITIBANK, Brazil's leading creditor, has started legal proceedings against a sugar and alcohol producers' co-operative and 11 mills in the state of Rio de Janeiro to recover \$14m in outstanding capital interest and penalties due on two \$10m loans made in 1978.

The proceedings have been taken out against Cooperativa dos Produtores do Açúcar e do Alcool do Norte-Fluminense (Cooper Flu) and 11 sugar and alcohol mills in the co-operative. The proceedings reflect growing financial difficulties in Brazil's alcohol industry.

Payment on the loans which are guaranteed by the Instituto do Açúcar e do Alcool (IAA), a federal supervisory body controlling Brazil's

sugar and alcohol industry, were suspended in late 1983. So far, three payments of \$760,000 have been missed.

The IAA admitted last week that several distilleries were experiencing financial difficulties and that the IAA itself had extended guarantees on about \$300m in loans.

The legal process initiated by Citibank in a federal court will require close to two weeks before Cooper Flu and the 11 mills are legally cited. The companies will then have 48 hours to pay the overdue loans or start renegotiations on the debts.

A Citibank director, Sr Alcides Amaral, indicated that, although the bank prefers to negotiate settlement without recourse to legal action,

the unusual action of taking the matter to the courts in this instance was deemed necessary because negotiations for over a year had not yielded results.

Citibank's action follows that of two other banks, the Hongkong and Shanghai Bank and the Norind Bank, against two other distilleries whose loans had been guaranteed by the Government.

Citibank's action, although small in itself, dramatises the problems of overborrowing and overproduction facing Brazil's alcohol facilities. Sr Amaral emphasised that Citibank was still a strong supporter and creditor to the sugar and alcohol sector with about \$80m in commercial loans on the books.

NatWest profits up 30% despite a £351m bad debt provision

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

NATIONAL Westminster Bank of the UK yesterday reported a 30 per cent rise in pre-tax profits to £571m (£724.6m).

The increase is much larger than the City of London expected, and it suggests that the other UK banks will also display the benefits of a buoyant bank market when they report this week. Bank shares leapt ahead on the news, although their gains were later cut by profit-taking.

NatWest, which is the UK's second largest bank after Barclays, achieved its record results despite setting aside £351m, one third more than in 1983, to cover possible losses. Most of this applies to loans abroad where the bank still sees a need for caution despite the recent easing of the international debt crisis.

Lord Boardman, the chairman, said that NatWest's profits were based on "sound growth in the business, good marketing of our services and firm control of costs. The underlying trading performance across the group was significantly better and was achieved in highly competitive trading conditions."

However, NatWest was hit by a large £377m tax charge because of the changes made by the Chancellor of the Exchequer to capital allowances in last year's budget. So its profits after tax and other items fell to £289m from £390m. This accounts for the relatively modest 8.3 per cent increase in dividend to 25.8p.

Lower post-tax profits also weakened NatWest's balance sheet slightly, although Lord Boardman said it remained "one of the most

strongly capitalised banks in the world."

The bulk of NatWest's increase in earnings came from the UK where the economic recovery produced strong loan demand and fewer bad debts. NatWest had to call in a receiver 15 times compared with 109 times in 1983. Lord Boardman said the miners' strike had only a minimal impact.

The bank also earned £80m from mortgages, up from £22m the previous year. NatWest has the largest bank-run home loan business in the UK with £3bn outstanding. It intends to land a further £1bn this year.

International banking was strong, but profits were hit by the high level of provisions for bad and doubtful debts.

Lex, Page 16; Details, Page 22

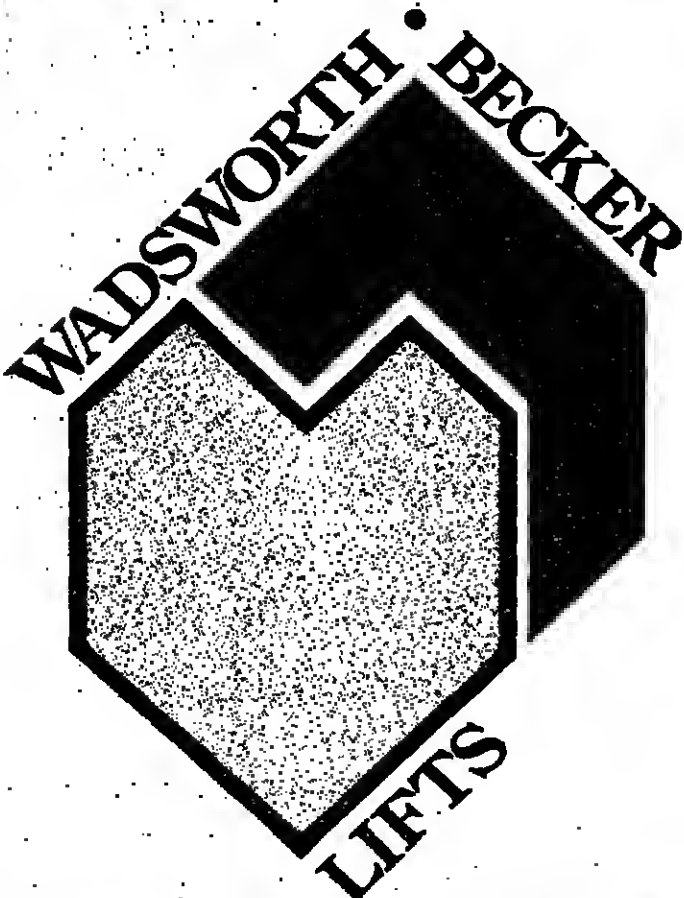
IBM seeks to ease trading restrictions

By Stewart Fleming in Washington

IBM is asking the U.S. Justice Department to lift two recent decrees it entered into in 1935 and 1958. The department is reviewing the cases. Companies enter into consent decrees to settle complaints brought against them through the courts or regulatory agencies. Normally the company, without admitting or denying guilt, will consent to be bound by restrictions inhibiting it from continuing practices which have been questioned.

IBM is downplaying the significance of the Justice Department review, but some of its competitors are expressing concern over lifting of the 1935 consent decree covering electronic data processing equipment.

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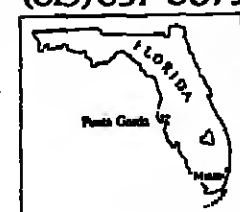
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INTERNATIONAL COMPANIES and FINANCE

Alusuisse bounces back into black

BY JOHN WICKS IN ZURICH

ALUSUISSE, the Swiss aluminium producer, returned to profits in 1984 with net earnings of SwFr 166.7m (\$58.4m). This result, the best since 1974, followed losses over the three preceding years. The 1983 deficit was SwFr 82m.

The parent company booked a rise in net profits from SwFr 4.4m to SwFr 31.6m and proposes a 6 per cent dividend. The payout will be the first since 1981, when shareholders received the equivalent of 5 per cent.

The marked improvement reflects a 15.5 per cent upswing

in turnover to SwFr 5.34bn, due in part to the stronger dollar.

At the same time, the group benefited from a rise in demand for aluminium, its major single product. This, together with the effects of restructuring within the light metals division, is expected to have put aluminium activities back in the black after a long period of loss-making.

In particular, Conaco, the U.S. subsidiary, is understood to have shown a profit in 1984. In recent years, this operation had suffered considerable losses.

Of the group's other major activities, both the Lonza divi-

sion (chemicals) and the Chicago-based automotive parts company Marmont are expected to have shown good profits.

Reorganisation costs—covering plant shutdowns, special write-offs, contract modifications and personnel compensation—amounted to SwFr 119.4m in 1984.

This was again taken from a special restricted reserve fund set up three years ago as a result of a revaluation of the group's alumina mining rights in Gove, Australia. The balance of this fund stands at SwFr

127.7m.

Elsewhere, extraordinary expenses added up to a net SwFr 21.1m, compared with net extraordinary income of SwFr 35.6m in 1983.

● **Chocoladefabriken Lindt & Sprüngli**, the Swiss chocolate company, proposes an unchanged dividend of SwFr 110 a share on increased capital. This follows an 11 per cent rise in net profits for last year to SwFr 5.18m.

Total world sales of group brands, including licensees' turnover, went up 10.3 per cent during 1984 to SwFr 641m.

Strong advance by Stora Kopparberg

By Kevin Done, Nordic Correspondent, in Stockholm

STORA KOPPARBERG, the Swedish forest products group, achieved record results last year with a 145 per cent increase in profits and a 41 per cent rise in turnover.

The group became the industry leader in West Europe last year through the SKR 3.6bn acquisition of Billerud, one of its domestic rivals, in Sweden's biggest ever corporate takeover.

Billerud has been consolidated in the results with effect from November 18 last year. Group turnover rose to SKR 8,080m (\$847m), compared with SKR 5,700m in 1983.

Excluding the partial contribution from Billerud as well as the Newton Falls paper mill in the U.S., which was acquired in 1984, sales showed an increase of 18 per cent of which some 12 per cent was accounted for by higher prices.

Profits (after financial items) jumped by 145 per cent to SKR 1,270m from SKR 516m in 1983. Billerud accounted for SKR 90m.

Stora Kopparberg said that profits in 1984 would have been SKR 1,500m if Billerud had been included for the full year after allowance for a SKR 400m interest charge for financing the acquisition. Total group sales for the full year would have been SKR 12,600m.

The group warned of lower profits in 1985 after two boom years, chiefly as a result of worsening market conditions for market pulp and sawn timber. The market for paper, board and chemicals is expected to be "satisfactory."

The dividend is limited by the dividend freeze to SKR 4.20 a share, against SKR 4.12 in 1984. Without the freeze the dividend would have been increased to SKR 5, said the company.

Stora Kopparberg said the big jump in profits last year was explained by a higher plant utilisation and improved prices for timber pulp and paper. Pulp prices were helped by increases based on the international dollar-denominated price as well as exchange gains through the overall strength of the dollar.

Pulp prices have been weak since the autumn, however. Profits from the Nova Scotia pulp and paper mill improved, but losses were incurred at the Newton Falls fine paper mill.

Euroc earnings soar by 52%

By Our Nordic Correspondent in Stockholm

EUROC, the Swedish cement, building materials and engineering group, boosted its profits by 52 per cent last year, helped by higher volume sales and better demand from export markets.

It is also continuing to benefit from the results of a far-reaching restructuring programme implemented in recent years which has helped to cut costs and improve the group's financial performance.

Profits after financial items jumped to SKR 321m (\$33.6m) from SKR 211m a year earlier, while sales increased by 15 per cent to SKR 5,400m from SKR 4,700m in 1983.

The group is still running up substantial losses on its Tetra automatic truck operations, partly as a result of heavy development costs, but the prospects for this division have been improved by a series of large recent orders including a SKR 250m contract from the U.S.

Euroc's cement operations have improved their performance in the U.S. and the Swedish plants have been helped by increased exports.

The group said it expected "somewhat higher" profits in 1985 helped by continuing strong demand in the U.S. and more limited volume increases in Europe and Latin America. A further fall in demand is expected from the Swedish construction sector.

Euroc's dividend is unchanged, but the company is planning a one-for-four scrip issue. It is also making a "with one-for-four" vote to establish a market in Stockholm in preparation for subsequent foreign share issues. It is also making a two-for-one share split.

Ahlstrom setback

Ahlstrom, the Finnish forest products and engineering group, reports lower profits for 1984 despite reduced losses in its newsprint division, writes our Financial Staff. Group turnover improved to FM 4.6bn (\$657m) from the FM 4.1bn of 1983, and parent company sales moved up from FM 3.36bn to FM 3.73bn.

After two years of improved returns, parent company profits have slipped to FM 25.8m from the FM 33m of the previous year. The company says that the year's losses on newsprint totalled FM 20m compared to a profit of around FM 25m in 1983.

BIB shows profit in second year

BY MARY FRINGS

Bahrain International Bank (BIB), which incurred a net loss of \$9m in 1983 after providing \$22m against a single Kuwaiti loan, played safe last year and kept the bulk of its funds on deposit or in U.S. Treasury and Euro-dollar bonds. Only \$31m of its \$294m asset base—which is principally supported by shareholders' equity of \$200m—was employed in commercial lending.

The result was an improvement in operating income, from \$13m to \$17.4m, and a net profit of \$11m after a general provision of \$8.4m against possible loan losses. The directors have proposed the distribution of the bank's first dividend, of 5 per cent, to its 10,000 Gulf shareholders.

Assets increased by 10 per cent in 1984, BIB's second full

year of operation as a Bahrain offshore banking unit (OBU). Mr Donald J. Selinger, the general manager, argues that this is not the time for a newly established bank to be building overheads in the form of a large staff and premises, in order to generate low-yielding loans in a high-risk economic and funding environment.

BIB has been working closely with its advisers from Mellon Bank of the U.S., and plans to sell some of Mellon's investment banking services on a fee-splitting basis. It has also appointed a real estate adviser, and expects to do some "moderately sized" U.S. real estate syndications.

● Net earnings at Gulf Riyad Bank rose by 24.8 per cent in 1984, despite an increase in general loan loss provisions to

\$3.49m from \$2.66m. The bank was established as an OBU in 1975, and the strength of its shareholders, Riyad Bank (60 per cent) and Credit Lyonnais, has enabled it to support a billion-dollar balance sheet on paid-up capital of only \$20m, plus an "ever-green" subordinated loan of SR 85m. A conservative reserves policy has brought total capital funds to \$61m.

Assets declined from \$1.27bn to \$1.19bn, and while the loan portfolio showed little change at \$522m compared with \$523.4m, there was a considerable shift to shorter-term lending.

Mr Henri Laumet, the general manager, attributed the increase in profitability to successful Treasury operations and an improvement in interest rate margins.

Julius Baer plans offshore funds

BY OUR ZURICH CORRESPONDENT

BANK JULIUS BAER plans for new offshore funds. Three will have a bond portfolio, specialising in dollar, D-mark, guilder and Swiss franc Eurobonds. The fourth is to invest in D-mark money market paper.

The new funds, which it is intended should be set up in the first half of this year, will be registered in Grand Cayman. Portfolio management will be carried out by Julius Baer in New York with the bank's London branch acting as custodian.

The move ties in with Baer's

intention to expand its London branch, particularly via portfolio management. Baer also sees a greater presence in New York and plans to open a representative office in Hong Kong.

For the current year, Baer is "very optimistic." Earnings in the first two months are said to have been excellent with all sectors contributing.

The bank recently reported a 23 per cent rise in net profits for 1984 to SwFr 23.8m (\$8.2m) and proposes an increase in dividend from 15 per cent to 16 per cent.

● Siemens-Albis, the telecommunications and electronics group, is to pay an unchanged 12 per cent dividend for the year ended September 1984. The company increased net earnings from SwFr 9.2m to SwFr 11.3m, due largely to a major reorganisation in all sectors. Turnover improved by 1.2 per cent to SwFr 640.5m.

The company, owned jointly by the German Siemens Group and the Swiss Elektro-Watt concern, views the current year optimistically.

This announcement appears as a matter of record only.



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INTL. COMPANIES & FINANCE

Steven Butler on the reconstruction of a failed conglomerate

Korea First guarantees Kukje debt

THE Korea First Bank has announced that it is guaranteeing foreign bank loans to Kukje-ICC Corporation, the failed Korean family-run conglomerate which is being dismantled as part of an attempt to rescue some of its operations. The decision puts to rest fears among foreign bankers that they might be forced to take losses on their loans to the company — some foreign banks have individual exposures as high as \$30m.

A senior executive of Korea First said the decision was taken to demonstrate the bank's full support for the company and to ensure that further funding would be available to help the company regain its health. However, the apparent ability of the bank to restore the company's viability with a restructuring of management and a fresh injection of cash has raised new questions about why Korea First decided to dismantle the company to begin with. It has reinforced the belief that the move may have had political motives or, at the very least, was designed as a severe warning to other Korean conglomerates, many of which have a financial structure as weak as that of Kukje.

Although similar guarantees have not been issued to Korean banks, the executive said he expected no banks would suffer losses due to the break-up of the company. Kukje's construction arm will be separated from the company and sold to Kukdong Construction. The Hanil Synthetic Fiber

company will take over Kukje's trading and footwear operations, as well as its extensive real estate holdings. Kukje will remain as a separate entity and retain its status as a general trading company under Hanil's management.

Terms for the sale of the company have not been finalised, but observers believe that Kukdong and Hanil, which are not conglomerates, will be given substantial incentives for taking over the weaker branches of the company.

The action against Kukje is consistent with recent government criticism of the huge conglomerates, which have come to dominate the economy over the past decade. Government economists have said that the group's sprawling nature has become a safe harbours for inefficiency, since their managers are more interested in expansion than profit or financial soundness.

The dismantling of Kukje has been taken as a warning to other groups to consolidate their businesses and to concentrate on their main lines of business or face a similar fate.

Non-performing loans

Kukje was heavily in debt and other conglomerates' financial positions are not much different. They all exist, to some extent, at the mercy of their banks, with debt ratios ranging up to and over 800 per cent. Korea's commercial banks have tied up an increasing amount of their funds in loans to such conglomerates. Many of

these loans are basically non-performing and the interdependence goes further. Many of the banks' major shareholders are the conglomerates to which they have lent so much money.

Mr Lee Kyung-Ku, assistant Minister of Finance, described the problem of non-performing assets of the banks as "serious," although he refused to disclose the actual amount. Foreign bankers say the amount of non-performing loans would be alarming by western standards, although it is difficult to calculate, since many companies are more or less automatically extended fresh loans to repay old ones, or loan agreements are renegotiated.

In 1984 loans extended by the Bank of Korea, Korea's central bank, to other banking institutions increased by 33.7 per cent to a record of 7,057,000 won (\$2.5bn). Much of the increase is believed to be accounted for by loans to shore-up ailing businesses, including construction and shipping companies.

One foreign banker says foreign banks continued lending to such highly leveraged companies because of an implied sovereign risk. "If we lend to any of the top 10 groups, we assume we are lending to Korea," he said.

Given the amount of lending, the level of sophistication of corporate financial analysis is very low, he added. "If the foreign banks had been made to take losses on Kukje, the banks would have had to change the whole method of operating and many companies would be shut off." The government has recently

placed restrictions on conglomerates investing in new subsidiary businesses. The Ministry of Finance is further considering rules to give the companies incentives to shed businesses unrelated to the company's principal areas of activity, and, up to determined limits, tax incentives to invest further in those principal lines.

Contingent liabilities

Government economists say that the healthy parts of the huge conglomerates are now subsidising their inefficient wings, and weakening the companies' efforts to develop some of the country's most promising areas of industry. One foreign banker cited as an example a conglomerate with a fast-growing electric company that was helping to keep afoot a money-losing heavy-machinery subsidiary.

In an effort to help weaker affiliates, some stronger companies have acquired contingent liabilities equivalent to more than twice their assets, according to a banker, and bankers are beginning to look more seriously at those contingent liabilities when they lend money.

Most bankers believe that the government is handling the Kukje problem in a way that will not severely damage the nation's international financial standing. However, the problem of the huge domestic debts in the country has been yet again highlighted by the fact that these stand in the way of the government's declared policy of liberalising the economy.

Santos earnings jump by 72%

BY MICHAEL THOMPSON-NOEL IN SYDNEY

SANTOS, the Australian energy producer, and the largest shareholder in the onshore Cooper Basin oil and gas fields, achieved a 72 per cent increase in net profit for 1984, to A\$63.3m (US\$ 58.5m).

The Cooper Basin liquids project is now in full swing, reflected in the rise in turnover to A\$287m from A\$147m. Sales from the Basin last year totalled 3m barrels of oil and condensate.

The final dividend from Santos is 8 cents a share, making a total of 15 cents a share — up from 1983's 12 cents total. One of its partners in the

Cooper Basin, Vangas — a subsidiary of Woodside Petroleum — boosted net profit by 81 per cent, to A\$14.1m, during the same period. A final Vangas dividend of 8 cents a share makes a total of 8 cents.

Santos also has a large stake in the Jackson oilfields in south-west Queensland, and last year took control of fellow Cooper Basin explorer Alliance Oil Development.

Industrial Equity, the investment group run by Mr Ron Brierley, scored an 87 per cent increase in net profit, to A\$15.4m for the half year to December. Before interest,

depreciation and other charges profits were 162 per cent higher at A\$55.9m. The interim dividend is 5 cents a share.

Mr Alan Bond's Bond Corporation, of Perth, has reported a 45 per cent increase in net profit for the six months to December, to A\$9.3m. This is approximately equal to its full-year net profit (excluding equity-accounted contributions) for the whole of 1983-84. Total assets rose by 20 per cent to A\$588m. As well as property, retailing and brewing, Bond now has sizeable interests in television and natural resources.

Sasol well ahead at midway

By Jim Jones in Johannesburg

SIGNIFICANT INCREASES in liquid fuel prices helped boost the interim results of Sasol, the South African oil-from-coal producer and the company has decided to accelerate the repayment of loans from the state. Turnover was \$1,440m (\$700m) for the six months ended December against R1,100m for the same period of 1984 and R2,460m for the full year to June 1984. First-half operating income rose to R514.8m from R282.6m and compares with R671.8m for all 1983-84.

The state guarantees Sasol oil prices based on world crude prices. Though crude prices have declined in dollar terms, the rand's own fall against the dollar has meant that Sasol's rand-denominated prices have increased strongly. The company's chemicals division's export activities benefited from the rand's weakness, but the fertiliser division was adversely affected by weak domestic demand.

The directors expect that second-half profit growth will not be less than that of the first but say Sasol's terms would be best served by the early repayment of state loans rather than by sharply increasing dividends. A total of R700m will be repaid to the state at the end of the current financial year.

First-half earnings increased to 43.6 cents a share from 36.3 cents and the interim dividend has been raised to 16.5 cents from 14 cents.

HK rationalisation for Citicorp

BY DAVID DODWELL IN HONG KONG

CITICORP, the U.S. banking group, has rationalised its banking and securities operations in Hong Kong, putting them all under the umbrella of a single entity known as the Hong Kong Investment Bank. The move is intended to sharpen the group's competitive edge in a fiercely competitive market.

The move affects operations in the capital and securities markets and in merchant banking, and comes less than two weeks after a surprise bid for

Secombe Marshal and Campion, the UK discount house which acts for the Bank of England. The Hong Kong Investment Bank, which Mr Peter Schuring, Citicorp's group executive officer in Hong Kong described as "not a legal entity but more a concept," embraces the Asia Pacific Capital Corporation, Citicorp's merchant banking subsidiary, Citicorp International Securities, and its newly acquired stockbroking arm, Vickers Da Costa (Hong Kong).

The investment bank will provide the services traditionally linked with these subsidiaries in securities trading, trade finance, syndicated loans, corporate finance, and mergers and acquisitions. At present, local customers account for between 40 and 50 per cent of the business generated by Citicorp from its Asian headquarters in Hong Kong.

Investment Bank will have one senior executive—Mr Philip Tuse, who has for the past decade headed Vickers Da Costa's operations in Hong Kong.

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£200,000,000 Medium Term Transferable Loan

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Commonwealth Bank of Australia
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Banque Indosuez
The Sumitomo Bank, Limited

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January 1985

Wells Fargo & Company

U.S. \$150,000,000 Floating Rate Subordinated Notes due 1994

In accordance with the provisions of the Notes, the interest rate for the period 6th March, 1985 to 6th June, 1985 will be 9 3/4% per annum. Interest payable on the relevant interest payment date 6th June, 1985 will amount to US\$250.76 per US\$1,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York, London

U.S. \$200,000,000 Midland International Financial Services B.V.

Guaranteed Floating Rate Notes 1989
Guaranteed on a subordinated basis as to payment of principal and interest by Midland Bank plc

For the six months from 8th March, 1985 to 8th September, 1985 the Notes will carry an interest rate of 10 1/4% per annum. On 8th September, 1985 interest of U.S. \$633.47 will be due per U.S. \$100,000 Note for Coupon No. 3
Agent Bank: European Banking Company Limited

NEW ISSUE

All of these securities having been sold, this announcement appears as a matter of record only.

February 15, 1985

7,000,000 Shares of
Depository Convertible Preferred Stock
of



Tiger International, Inc. TIGER INTERNATIONAL

PaineWebber Incorporated

Bear, Stearns & Co.

E. F. Hutton & Company Inc.

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Wertheim & Co., Inc.

Crédit Commercial de France

Samuel Montagu & Co. Limited

Pierson, Heldring & Pierson N.V.

Vereins- und Westbank Aktiengesellschaft

Teollisuuden Voima Oy (TVC Power Company)

U.S. \$100,000,000

Floating Rate Notes due 2004

Notice is hereby given that the Rate of Interest for the final Interest Sub-period of the Interest Period ending on 9th April 1985 has been fixed at 10% per annum. Coupon No. 4 will therefore be payable at U.S. \$289.66 per Coupon on 9th April 1985.

8th March 1985

Manufacturers Hanover Limited

Agent Bank

Alahli Bank of Kuwait (K.S.C.)

(Incorporated under the Commercial Companies Law of Kuwait)

US\$50,000,000

Floating Rate Notes due 1992

Notice is hereby given that the Rate of Interest has been fixed at 10% and that the interest payable on the relevant Interest Payment Date, September 6, 1985 against Coupon No. 2 in respect of US\$50,000 nominal of the Notes will be US\$271.53 and in respect of US\$250,000 nominal of the Notes will be US\$1,376.39.

March 6, 1985, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

This announcement appears as a matter of record only.

March, 1985

VOLVO**AB Volvo****US \$300,000,000****Borrower's Option for Notes
and Underwritten Standby (BONUS)**

Arranged by

BankAmerica Capital Markets Group

Managed by

Algemene Bank Nederland N.V.
BankAmerica Capital Markets Group
Banque Indosuez
Banque Paribas
Continental Illinois Capital Markets Group
The Fuji Bank, Limited
Midland Bank plc
PKBanken
Skandinaviska Enskilda Banken
The Sumitomo Bank, Limited
Westpac Banking Corporation

Amsterdam-Rotterdam Bank N.V.
Bank of Montreal
Banque Nationale de Paris
Canadian Imperial Bank Group
Credit Suisse
Gulf International Bank B.S.C.
Orion Royal Bank Limited
The Sanwa Bank, Limited
Société Générale
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Goldman Sachs International Corp.
Hambros Bank Limited

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Morgan Stanley International
PK Christiana Bank (UK) Ltd.
S. G. Warburg & Co. Ltd.
Sumitomo Finance International
Westpac Banking Corporation

Amro International Limited
Bank of Montreal
Banque Nationale de Paris
CIBC Limited
Credit Suisse First Boston Ltd.
Fuji International Finance, Limited
Gulf International Bank B.S.C.
Lehman Brothers International
Midland Bank plc
Morgan Grenfell & Co. Limited
Orion Royal Bank Limited
Sanwa International Limited
Société Générale
Tokai International Limited

Facility, Tender and Issuing Agent

Principal Paying Agent


**Bank of America
International Limited**
Bank of America NT & SA**INTL: COMPANIES & FINANCE****Messer and Hoechst work as equals**

John Davies on the chief of a West German industrial gas maker

DR HANS MESSER enjoys what is, perhaps, most business executives' dream, the independence of running a business closely associated with his family and the security of being part of a huge concern. At 20 years, he has been a partner with Hoechst, the West German chemical group, in a steadily expanding business producing industrial gases and cutting and welding equipment. Although Hoechst is by far the larger partner, Dr Messer has kept managerial control while his company, Messer Griesheim, with world sales of DM 1.7bn (\$485m) a year, retains a clear-cut identity of its own within the Hoechst group.

**FIVE-YEAR
PERFORMANCE**

	Total sales (DMbn)	Net profit (DMbn)
1984	1,700	n/a
1983	1,43	40
1982	1,40	40
1981	1,57	34
1980	1,39	42
1979	1,31	38

* Approximate only. 1984 profit not yet disclosed.

As the only real outsider, he sits on a managerial committee which brings together the diverse strands of Hoechst's interests the sales of which amount to DM 40bn a year.

While some businessmen would find partnership with a giant uncomfortable, Dr Messer professes to have had no problem since merging his family business, founded by his father in 1898, with Hoechst's similar operations.

The merger agreement is just a basic document of two and a half pages, he says. "Only once in 20 years have I had it in my hands. It's a good sign when you don't have to keep going to a drawer to take out the contract."

Hoechst owns two-thirds of Messer Griesheim, while the Messer family company, Messer Industrie, owns one-third. But in some ways the partnership operates more like one between equals. For instance a stockholders' committee, on which each side has two representatives, decides important questions such as investment and financing.

Messer Griesheim's independent streak has been enhanced by its overall profitability—despite recession and structural problems in some of its markets—and its ability to generate sufficient earnings to be

ploughed back as capital. "We've never asked Hoechst to put in extra money," Dr Messer says. "Capital increases have always come out of profits."

As the company has built up its capital from DM 30m in 1965 to DM 216m, the Messer family has retained its one-third stake and does not envisage ever letting it shrink. Messer Griesheim earns 70 per cent of sales revenue from industrial gases, with the remaining 30 per cent coming from welding and cutting equipment. But with many profitable industrial gas markets expanding in West Germany and abroad, this side of the business is expected to make up 80 per cent of sales in a few years.

The company, which delivers industrial gases by pipeline, road tanker and in cylinders, ranks itself in fifth place among world producers—after British Oxygen of the UK, Air Liquide of France, Union Carbide of the U.S. and Air Products of the U.S.

Linde, based in Wiesbaden, is a rival in West Germany, Austria and Switzerland, but the two companies have joined forces, through a Swiss holding company, to produce and market industrial gases in France, Benelux and South Africa.

Although the steel market is still likely to offer only limited demand for oxygen, Dr Messer sees strong growth prospects overall for industrial gases.

New markets are continuing to open up, including the use of gases in the preparation and packing of foods. In the steel business, the increasing importance of alloys is boosting demand for argon.

The company is particularly keen to expand in the U.S. where it has been building up its production of gases during the past 10 years.

Messer Griesheim's welding and cutting business is being overhauled, after turning in a loss in 1983. The division expects to break even by the end of this year and to return to profitability next year.

Apart from recession and structural changes (such as the decline of shipbuilding), the whole welding and cutting equipment industry has been confronted with technical changes in its clients' operations. These have included introduction of new materials, use of thinner sheet metal and new construction principles.

To meet these challenges, Messer Griesheim has concentrated its West German production in six factories instead of

eight, is strengthening its marketing and is developing new product lines.

Some areas of business, such as resistance welding equipment, have still been performing well, with an increasing backlog of orders.

A new range of cutting machines will be launched in the second half of this year, while new gas-shielded welding sets are currently being introduced. It has also been co-operating with Reiss, a West German company, in developing robots, with Messer Griesheim attaching the welding periphery.

The company says that its welding and cutting equipment results were satisfactory only in some sectors last year, partly because of the strikes in the metal industries last May and June. But with industrial gas business buoyant, net profit, so far undisclosed, exceeded the DM 40m of 1983 and the company is said to have had overall the best year in its history.

Messer Griesheim's foreign

business, notably in industrial gases, has grown in recent years to well over 40 per cent of total sales and is expected to make up 50 per cent in a few years.

Investment, running at about DM 140m a year, is being directed primarily at increasing industrial gas production, including a DM 25m expansion of capacity at Oberhausen.

Dr Messer, now 60, entered the family business immediately after the war and combined the task of running a factory with university studies in chemistry and economics. He took over management of the whole company in 1953 at the age of 28 and negotiated the Hoechst merger in 1964.

As well as balancing the roles of independent businessman and Hoechst associate, he has been actively involved in industry associations. He was elected president of the Frankfurt chamber of commerce 50 years ago and is a committee member of the West German Industry and Commerce Association (DIHT).

BASE LENDING RATES

A.B.N. Bank	14%	C. Hoare & Co.	11 1/2%
Allied Irish Bank	14%	Hong Kong & Shanghai	14%
Alfred E. Fischer	14%	Johnson Matthey Bank	14%
Amro Bank	14%	Knowles & Co. Ltd.	14 1/2%
Arco Bank Ltd.	14 1/2%	Lloyds Bank	14%
Associates Cap. Corp.	14%	Edward Manson & Co.	15%
Banco de Bilbao	14%	Meghraj & Sons Ltd.	14%
Bank of America	14%	Midland Bank	14%
Bank of Canada	14%	Morgan Grenfell	14%
BCCI	14%	Mount Credit Corp. Ltd.	14%
Bank of Ireland	14%	National Bk. of Kuwait	14%
Bank of Cyprus	14%	National Girobank	14%
Bank of India	14%	National Westminster	14%
Bank of Scotland	14%	Northern Bank Ltd.	14%
Banque Belge Ltd.	14%	Norwich Gen. Trust	14%
Barclays Bank	14%	People's Trust & Sav. Ltd.	15%
Beneficial Trust Ltd.	14%	Provincial Trust Ltd.	15%
Brit. Bank of Mid. East	14%	R. Raphael & Sons	14%
Brown Shipley	14%	P. S. Refson	14%
CL Bank Nederland	14%	Roxburgh Guarantee	14 1/2%
Canada Perm't Trust Ltd.	14%	Royal Bank of Scotland	14%
Cedar Holdings	14%	Royal Trust Co. Canada	14%
Charterhouse Japhet	14%	J. Henry Schroder Wagg	14%
Choulatons	14%	Standard Chartered	14%
Citibank NA	14%	Trade Dev. Bank	14%
Citibank Savings	12 1/2%	TCB	14%
Clydesdale Bank	14%	Trustee Savings Bank	14%
C. E. Costa & Co. Ltd.	14 1/2%	United Bank of Kuwait	14%
Comm. Bk. N. East	14%	United Mizrahi Bank	14%
Consolidated Credits	14%	Westpac Banking Corp.	14%
Co-operative Bank	14%	Whiteaway Laidlaw	14 1/2%
The Cyprus Popular Bk.	14%	Williams & Glyn's	14%
Dunbar & Co. Ltd.	14%	Winttrust Secs. Ltd.	14%
Duncan Lawrie	14%	Yorkshire Bank	14%
E. T. Trust	14 1/2%	Members of the Accepting House	
Exeter Trust Ltd.	14 1/2%	7-day deposits 11%, 1 month 11 1/2%, fixed rate 12 months 12 1/2%, 12 months 12 1/2%, 24 months 12 1/2%	
First Nat. Fin. Corp.	15 1/2%	7-day deposits on sums of under £10,000 11%, £10,000 up to £50,000 12%, £50,000 and over 12 1/2%	
First Nat. Secs. Ltd.	14 1/2%	Call deposits £1,000 and over 11 1/2%	
Robert Fleming & Co.	14%	21-day deposits over £1,000 12 1/2%	
Robert Fraser & Ptns.	14 1/2%	Mortgage base rate, Demand deposits 11%, See Provincial Trust Ltd.	
Grindlays Bank	14 1/2%		
Gulmoss Mahon	14%		
Hambros Bank	14%		
Heritable & Gen. Trust	14%		
Hill Samuel	14 1/2%		

NEW ISSUE

This announcement appears as a matter of record only.

February, 1985

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(Incorporated with limited liability under the Commercial Code of Japan)

U.S.\$50,000,000**3 1/2 per cent. Convertible Bonds Due 2000**

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These securities have been sold outside the United States of America and Japan. This announcement appears as a matter of record only.

NEW ISSUE

5th March, 1985

Mitsui Real Estate Development Co., Ltd.

(Mitsui Fudosan Kabushiki Kaisha)

**U.S. \$50,000,000****10% per cent. Guaranteed Notes 1992**

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The Nikko Securities Co., (Europe) Ltd.
Westdeutsche Landesbank Girozentrale

UK COMPANY NEWS

Unilever surprises the City with £924m

BY MARTIN DICKSON

Unilever, the Anglo-Dutch food and consumer products group, pleasantly surprised the City yesterday with 1984 pre-tax profits of £924m—20 per cent above the £769m of 1983 and well ahead of market expectations.

Unilever's share price rose sharply on the news, closing last night at £124, up £1 on the day.

Sir Kenneth Durham, Unilever's chairman, said the results reflected the company's concentration on its core businesses—consumer goods, specialty chemicals, plantations and selected activities of UAC International.

The results include an £86m extraordinary charge, taken in the fourth quarter, to cover recent and forthcoming disposals of businesses not regarded as central to the company's strategy.

The company had a turnover of £18.1bn in 1984, up from £13.3bn in 1983—a rise of 21 per cent on the basis of exchange rates at the close of the year and 12 per cent on a comparable basis, which reduced the effect of fluctuating currency movements. Measured on a comparable basis, pre-tax profits were up 14 per cent.

The profit attributable totalled £497m, a rise of 30 per cent on the £382m recorded in 1983. The group's combined earnings per share are 133.8p, as against 102.84p in 1983. Unilever Plc is declaring a final dividend of 24.03p (20.29p) a share, making a total for the year of 38.52p (30.89p).

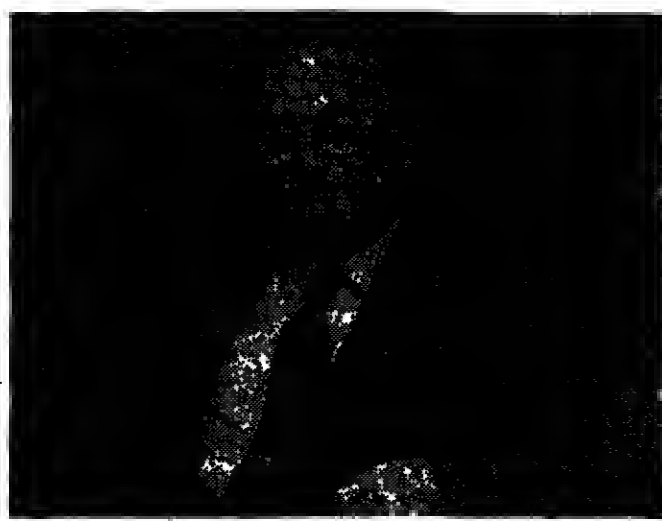
Europe produced particularly good results for the group, despite the impact of EEC milk quotas on the animal feeds division and butter subsidies on the margarine market. Frozen food, other food and drink and snack recovery in the packaging busi-



nesses made major contributions to the overall gain. Sales in the EEC were up from £7.6bn to £8.7bn and operating profits from £258m to £328m.

In North America, sales were up from £2.1bn to £3.0bn, helped by acquisitions, while operating profits rose from £140m to £187m. Lever Brothers in the U.S. heavily invested in new products, while both Lipton and National Starch made a good contribution.

The company has been test marketing two new liquid softeners in the U.S. during the past year, which Sir Kenneth said had done extremely well



Sir Kenneth Durham... core businesses behind the improvement.

and would be launched nationally this year to compete with Procter and Gamble's products. Unilever's Canadian companies—where there has just been a change of top management—produced lower results, while UAC International's results remained at a low level.

Other businesses outside Europe and North America improved by 18 per cent, with plantations a particularly good performer.

The results do not include any contribution from Brooke Bond, which Unilever bought last October in a contested takeover. Its fourth quarter profits will be taken into the group's 1985 results.

Sir Kenneth said he was confident the Brooke Bond acquisition would "more than meet expectations" and would make a good contribution for 1985, even after taking into account the financing costs of the purchase.

He said there were operations in Brooke Bond which did not fit with Unilever's long term strategy and these would be sold in due course.

The £86m extraordinary charge—much reduced for the full year by a £60m UK deferred tax release in the third quarter

—is a "prudent provision" to cover the disposal of various businesses—both profitable and unprofitable—which the company does not see as central to strategy.

Sir Kenneth said the sum included provisions for the previously announced sales of the SPD distribution group, Norfolk Line, MacFisher's and BEAM, an office equipment distributor.

He would not be drawn on what other disposals were planned, though there has been speculation that Brooke Bond's timber interests are likely to be high on any sales list.

The 1984 results also include exceptional items of around £55m (£48m in 1983) for restructuring the company's continuing businesses, mainly in the UK and West Germany.

Sir Kenneth said the group was also reviewing the strategy for UAC, which had been adversely affected by trading conditions in West Africa, particularly Nigeria.

In Nigeria, Unilever's trade debt outstanding fell in 1984 from about £125m to about £105m, with the proportion insured remaining the same—80 per cent. Of the insured amount, the company had received about £50m from the group, had a turnover of £2.95bn, a 13 per cent rise on 1983, and pre-tax profits of £201m, up 16 per cent on the £173m of the previous year.

Europe showed a significant improvement with results up 25 per cent, and North America was also buoyant, with results up 30 per cent. See Lex

A & A selling Howden offshoot

By Terry Dodsworth in New York and John Moore in London

ALEXANDER & Alexander Services, the second largest insurance broker, has put its Sphere Drake insurance interests up for sale.

The announcement that it is disposing of the Sphere Drake business, the parent company of which is based in the UK, was coupled with a warning that provisions for an increase in loss reserves in the Sphere Drake operations would produce a "significant" loss for the group for the final quarter of 1984.

Alexander & Alexander's year end results would be "substantially affected" by the provisions.

Mr John Bogardus, the chairman of Alexander and Alexander, said he did not anticipate that the results would affect dividend policy. But the loss suggests that a dividend will not be covered this year.

Irregularities

Sphere Drake was acquired by Alexander and Alexander as part of its purchase of the Alexander Howden Group three years ago. Since then Alexander and Alexander has uncovered a series of irregularities in the Howden empire.

In 1983 Sphere Drake reported a £23.5m deficit to the profit and loss account for the year ended December 1982, as a result of allegedly irregular reinsurance deals and general underwriting trends.

Mr Ian Dean, chairman of Sphere Drake, said yesterday that the latest problems did not relate to past alleged irregularities, but largely related to adverse conditions on the trading front.

Mr Bogardus said in the U.S. that there had been "adverse developments" on U.S. casualty business, which included date notices on asbestos claims and an increased frequency of claims on other general insurance lines.

The companies which are to be disposed of are Sphere Drake Insurance; Sphere Drake Underwriting Managers; Sphere Drake (Canada); Sphere Drake Underwriting (Australia); Sphere Re of Canada; Groves, John & Westrop (Underwriting); Atlanta International Insurance and a 29 per cent stake in Philadelphia Re.

The existing management will also stay with the companies in any sale.

NatWest above expectations with advance to £671m

National Westminster Bank, the first of the big four clearers to report its 1984 results, made excellent progress in the year. Pre-tax profits were up 30 per cent from a restated £518m to £671m compared with market estimates in the £625m to £650m range.

Lord Boardman, the chairman, said the record figures had been achieved despite substantial additional provisions and rest on sound growth in the business, good marketing of group services and firm control of costs.

The underlying trading performance across the group was significantly better and was achieved in highly competitive trading conditions, he added.

The year's tax charge, however, was more than trebled at £377m (£117m). This represented 56 per cent of group profits and reflected a £254m charge (£26m in 1983) for deferred tax. As a credit) after allowing for minorities and preference dividends, net profits were down from £366m to £289m.

Lord Boardman said the home loan book now stood at almost £5bn, with the bank prepared to increase this figure by another £1bn this year.

In international banking there was further growth in trading performance. But a higher level of provision, the greater part of which relates to Sovereign Debt, resulted in a lower overall contribution. National Westminster Bank USA again produced record results.

On a current cost basis, pre-tax profits were 32 per cent higher at £578m (£438m). With effect from January 1, 1984 the amount credited to the P and L account from income from assets leased to customers and regional development grants has been grossed-up to reflect its tax-free nature. Comparative figures have been restated accordingly.

The bank has set aside an additional £950m in provisions following the changes in the treatment of capital allowances in last year's Budget. But the combination of proceeds of the rights issue and the £500m dated subordinated notes issue "has significantly strengthened our overall capital position," Lord Boardman said.

The group's balance sheet had grown by 15 per cent to £71.52bn (£59.0bn), he added, although after stripping out "exchange rate variations the growth was a more moderate 8 per cent."

The shares closed yesterday up 10p to 65p.

Operating costs in 1984, excluding

ing the provision for bad and doubtful debts, increased by 14 per cent to £1.54bn.

Net interest income after charging loan capital interest was up 14 per cent to £1.75bn (£1.54bn). Volumes were higher and in currency business, exchange rates had a significant impact. Storing advances grew by 17 per cent. Overall income rose by 19 per cent to £2.89bn (£2.37bn) taking account of commission, higher investment income and foreign exchange earnings.

Trading surplus of the bank and its subsidiaries was ahead from £459m to £539m. Associates added £32m (£29m). A divisional breakdown showed domestic banking £400m (£242m) or 56 per cent (47 per cent); international banking £171m (£182m) or 26 per cent (35 per cent); loans performed well with £58m (£38m) or 14 per cent (17 per cent).

UK domestic banking had an excellent trading year and good business growth. Tight control of costs together with significantly higher income improved retail banking performance. Subsidaries performed well with good profits from NatWest Home Loans.

On the personal banking side, NatWest expanded its customer base by 120,000 while its home loans business pushed up profits from £22m to a record £60m. Lord Boardman said the home loan book now stood at almost £5bn, with the bank prepared to increase this figure by another £1bn this year.

In international banking there was further growth in trading performance. But a higher level of provision, the greater part of which relates to Sovereign Debt, resulted in a lower overall contribution. National Westminster Bank USA again produced record results.

On a current cost basis, pre-tax profits were 32 per cent higher at £578m (£438m). With effect from January 1, 1984 the amount credited to the P and L account from income from assets leased to customers and regional development grants has been grossed-up to reflect its tax-free nature. Comparative figures have been restated accordingly.

The bank has set aside an additional £950m in provisions following the changes in the treatment of capital allowances in last year's Budget. But the combination of proceeds of the rights issue and the £500m dated subordinated notes issue "has significantly strengthened our overall capital position," Lord Boardman said.

The group's balance sheet had grown by 15 per cent to £71.52bn (£59.0bn), he added, although after stripping out "exchange rate variations the growth was a more moderate 8 per cent."

The shares closed yesterday up 10p to 65p.

Glass Glover £7.4m cash call

BY ALISON HOGAN

Glass Glover, the fresh produce importer and food distributor, is raising £7.38m via a rights issue to finance the expansion of its marketing activities by both acquisition and organic growth.

The group has been gradually developing its activities from the core fruit and vegetable business, adding value to the products through packaging, and expanding its distribution business.

The rights is on a one-for-three basis at 238p a share.

Glass Glover recently announced the acquisition of Rankins Fruit Markets, an Edinburgh-based company, taking it into the marketing of flowers and plants. It has also purchased a new warehouse and office complex at Harlow, Essex, which has the technology to warehouse chilled foods prior to distribution to supermarkets around the country.

The company has been increasing the range of foods it distributes to include dry

groceries and chilled foods as well as fruit and vegetables and, as a result, is successfully building up its contract distribution business.

Some of the rights issue funds will be used to finance the costs of new distribution centres to be opened in Luton, South Wales, Yorkshire and Scotland.

A new packing plant is also to be opened in Scotland to support the group's growing involvement in the marketing of local produce in the Clyde Valley area.

Glass Glover says that recent acquisitions will not contribute significantly until 1986, but the current financial year to September will be "satisfactory."

The board has already recommended a final dividend of 2.075p (1.575p) making a total for the year of 3.45p (3.125p). It expects to be able to pay at least the same rate of dividends this year on the enlarged rights share base.

An AGM will be held on March 28, and dealings in the new

shares are expected to begin the following day. Montagu, Loeb, Stanley are brokers to the issue.

comment

Even before the supermarkets started giving such prominence to the mountains of fresh fruit and vegetables in their stores, Glass Glover was making good profits from its traditional business. It has planned well to capitalise on increased demand, not just in the variety and sourcing of produce, but in the service to clients through improved warehousing facilities and an expanded distribution network. All these developments are costly and the rights issue seems a quite reasonable call upon shareholders in return for the expected benefits which will only fully come through in 1986.

The group could make £2.3m pre-tax in the current year up from £1.12m, which puts the share down by 270p on a prospective ex-rights p/a of nearly 20.

An AGM will be held on March 28, and dealings in the new

Turriff shares dive on warning of halved profit

BY PAUL HAM

Turriff Corporation, the builder and property developer, yesterday announced that it expected a pre-tax profit of about £1m for the year to December 31, 1984, down 50 per cent on the year before.

In 1983 Turriff made a pre-tax profit of £2.043m and paid a 7p dividend. The estimate for 1984 would mean the largest reduction in profit for the company in 10 years.

Following the news Turriff's share price fell 45p on the Stock Exchange to close last night at 300p.

Mr W. G. Turriff, chairman, explained that the poor result was due to the "difficulties and delays" involved with assessing final accounts of large, long-term projects which the company was undertaking.

A company spokesman said that while he could not name particular contracts, the average 1m of Turriff's major contracts was two years which made final accounting difficult, particularly in 1984 when the number of

contracts actually increased.

Turriff made a pre-tax profit of £509,000, up from £473,000, in the first half of 1984. At the time Mr Turriff said that traditionally the group's profits came through in the second half.

Turriff made the profit estimate in a letter to shareholders sent yesterday which announced the company's intention to buy the remaining 51 per cent of Engineering Support Services within three years.

Turriff last month bought 49 per cent of ESS, a Reading-based producer of technical and computer manuals for £25,000 cash. Turriff's estimated halving of profits marks the end of six years of steady if unspectacular growth, during which profits rose from £1.06m in 1977 to £2.04m in 1983, turnover increased £20m to £81.7m and dividends tripled to 7p.

Mr Turriff said the board was confident about prospects for 1985 and beyond. The company last June bought 50 per cent of Ableson Plant Holdings,

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WHOSE earnings per share?

THE STORY SO FAR...

1974 + 66.3%

1975 + 34.8%

1976 + 77.4%

1977 + 20.0%

1978 + 22.7%

1979 + 24.7%

1980 + 29.7%

1981 + 21.4%

1982 + 20.1%

1983 + 22.0%

TO BE CONTINUED TOMORROW...

Michael Cassell on Tarmac's overseas expansion plans

Building on American offensive

HAVING SPENT six years wiping out the impact and then the memory of some disastrous contracting adventures abroad, Tarmac is again stepping up its search for overseas earnings.

Britain's biggest construction and building materials group will this spring be announcing 1984 performance figures showing another big increase in pre-tax profits.

Apart from confident predictions of still-higher profits in 1985, plenty of emphasis will also be placed on the growing contribution now expected from Tarmac's fast-expanding American operations.

With pre-tax 1984 estimates of over £100m now certain to be proved right, Tarmac will have managed to quadruple its profits since the crisis days of 1973 when, reeling from the impact of huge losses in Nigeria, the group turned to new management.

Under Mr Eric Fountain, now chairman, Tarmac pulled back from overseas markets to lick its wounds. Plans to derive as much as 25 per cent of group turnover from overseas activities were put into reverse and the figure was brought down from around 20 per cent to 10 per cent, described at the time as "the correct proportion".

But in the eyes of the City, while Tarmac's lower international profile might have reduced the risks of calamity it also left the group looking dependent on a non-too-predictable domestic market place, potentially unable to offset any weaknesses at home with improved earnings from abroad.

Given the group's own recognition that its recent, spectacular growth rate could not be maintained from UK markets alone, the balance between home and overseas business has now started to swing back the other way. In 1985, over 20 per cent of group turnover—likely to exceed £150m—will be derived from abroad.

Now, however, the emphasis has switched from contracting—the source of its earlier problems—to the development of asset-based businesses.

Though the group remains active—with varying degrees of commitment—in part of Europe, the Middle East, South Africa and South America, the recent emphasis on overseas markets has so far been most obviously directed towards the U.S. Tarmac is not foolish enough to suggest its latest foreign foray is without risk but it has chosen carefully moved cautiously and stuck to the business it knows best.

After a string of acquisitions dating back to 1980 and culminating in the \$66m purchase last



Mr Eric Fountain... emphasis has switched from contracting to the development of asset-based businesses

October of Lone Star Industries' interests in Florida, Tarmac is beginning to make a real impact in two of America's principal growth markets—Florida and Texas.

The Lone Star deal leaves Tarmac earnings undiluted, all but doubles the capital employed in the U.S. to about £100m—around one quarter of the group total—and is thought to have pushed up current U.S. turnover to well over \$200m. The U.S. contribution to 1985 pre-tax profits, which should exceed £130m, could rise from under 5 per cent to around 10 per cent of the total.

The U.S. expansion has been carried out through the group's

was forced on the owners by mounting debts elsewhere within its organisation—Tarmac had already picked up 12 local ready-mixed plants and four block-making plants but it remained totally dependent on other suppliers for aggregates. In Lone Star, however, it has not only acquired another 33 ready-mixed units and nine block plants but its own, all-important source of aggregates.

A massive, underwater quarry at Pensacola, north west of Miami, holds an estimated minimum 100 years of limestone reserves and a current extraction rate of around 6m tons a year will rise—without any increase in labour—

we set out to secure our aggregate backing.

"Lone Star was essentially an asset purchase, offering us a firm operational base and plenty of potential for growth. The acquisition will pay off from next year onwards, when the gearing up of the quarries will produce a dramatic change in costs."

Shortly before the Florida deal, Tarmac again put its philosophy into practice and stepped up its Texas operations via the \$15m acquisition of Chico Crushed Stone, owners of a limestone quarry north of Fort Worth and containing over 100m tons of limestone reserves.

It also purchased Cen-Tex Ready-Mix Concrete, a ready mix, sand, gravel and trucking business based at Killean, south of Dallas-Forth Worth.

The latest additions have stepped up the need for Tarmac to put a fully integrated management structure into place and Mr Roy Kettle, a group managing director who is overseeing the U.S. expansion, says he will stay as long as it takes. He thinks Tarmac will be reluctant to spread operations beyond Florida and Texas, though such a move is not out of the question.

Now that base aggregates have been secured, a period of organic growth, supplemented by further acquisitions, lies ahead. According to Mr Kettle: "We have not finished by any means."

As for other Tarmac operations extending to the U.S., a team from the group's housing division—which will build over 8,000 homes in the UK this year—is about to fly in to investigate the market.

Housing is booming in Florida and Texas and Tarmac believes it might well have a few things to teach the Americans.

6An asset purchase, offering a firm operational base and plenty of potential for growth

quarry products division, which last year contributed half of total profits, a percentage which is expected to rise in 1985.

The American offensive began in September 1980, when Tarmac paid just over \$2m for a small ready-mixed concrete producer and block-making operation. Since then, it has acquired several aggregate and building product operations with proven managements and useful market shares.

With its combined Florida and Texas operations now producing 4m cubic yards of ready-mixed concrete a year, the group can claim to be among the largest producers in the U.S.

By the time the Lone Star deal in Florida came along—a sale

Sperry takes up option to back Mnemos

By Alexander Nicoll

THE U.S. computer group Sperry Corporation has invested \$5m (£4.7m) in Mnemos, the USM-quoted manufacturer of data storage systems, and has won a licence much expanded from that envisaged when an option agreement was signed in October.

In return for its investment, Sperry gets 5m new shares in Mnemos—quoted yesterday at 60p, up 7p—and a 15-year licence to market Mnemos equipment for most forms of military applications as well as for aerospace and marine uses.

The original agreement foresaw marketing only to the U.S. military and Government, and Mnemos said Sperry had exercised its option following substantial interest in Mnemos products—with as yet no firm orders.

The option and its subsequent exercise were seen as a victory for Mnemos, which has sought for a long time to win acceptance of its System 6000 equipment. Mnemos equipment locates faults in electronic circuitry and is also designed for storage and retrieval of large amounts of information such as that in technical manuals. Development of the systems had virtually exhausted all Mnemos' resources, and it still has no orders for them.

Sperry's investment will give it a 3.6 per cent stake. But it has also been granted the right to buy a further 5m shares, subject to approval by Mnemos shareholders, during the next three years. The exercise price will be the lower of \$1.50 per share or market price, and must not be below 50 cents.

Combined Technologies, headed by Mr James Longcroft, also chairman of Tricon-Trol, will see its stake in Mnemos fall from 62 per cent to 53 per cent as a result of Sperry's present investment, and to 47 per cent if Sperry exercises its second option.

Comtech has also guaranteed to buy back, if Sperry wishes, the 5m shares now being issued to the U.S. company, at 50 cents per share.

Should Mnemos' manufacturing facilities be unable to cope with demand, Sperry has the right to produce Mnemos equipment outside the U.S. itself and will pay a royalty of 9 per cent, increased from 4 per cent previously.

Grand Met expects sharp decline as U.S. problems grow

By John Shepherd

Grand Metropolitan yesterday warned that group taxable profits for the first half of the current year were likely to be significantly down on the £147m achieved in the corresponding period.

Mr Stanley Grinstead, chairman and group chief executive, told shareholders at the annual meeting that "without our current, rather special problems" in the U.S. Grand Met would have easily earned £350m in 1984-85.

Grand Met's share price shed 5p yesterday to finish the day at 270p, giving a market capitalisation of £2.12bn.

Over the past five years group taxable profits have more than doubled from £152.1m to £354.3m in 1983-84.

Lower profit margins on sales of Liggett & Myers' (L & M) generic and private label cigarettes were, he said, mainly responsible for a fall of \$20m (£19m) in the operating income of last consumer product activities in the first quarter.

"Therefore it seems inevitable that the group's profits before tax for the first half of the current year will be significantly lower."

Grand Met surprisingly abandoned attempts last summer to dispose of L & M, citing "development in the pricing of cigarettes" as the main reason.

Responding to a shareholder, he said that there was "no profitability at all from this activity at the present time."

L & M was acquired for around \$500m (£348.5m at prevailing exchange rates) in August 1980. Although relatively small in the U.S. tobacco industry it has reversed a sharp decline in market share over the previous 30 years.

Last August Grand Met continued its strategy of expanding its "brended" consumer services in the U.S. with the acquisition of Quip, a leading operator of home nursing services.

The deal was funded by a vendor placing two months ago of 51m new shares, raising £107m.

Despite Grand Met's setback in the U.S., the chairman was confident that the higher rates of growth expected of Grand Met would be achieved beyond the current year.

Asked about the identities and positions held by two employees who earned in excess of £20,000 each last year, Mr Grinstead declined to say who they were, but said their "remuneration reflects the market place."



Mr Stanley Grinstead

Two publicans complained to Mr Grinstead about the high level of rents for public house tenants. He pointed out that rents were geared towards profits potential and that tenants had the right to negotiate.

A CAMRA representative asked about the closure of the Norwich brewery. The chairman said that it was not large enough to be converted to production of lager, which accounted for around 40 per cent of beer consumed.

Speaking about the future of the Lyeum in The Strand (venue of the annual meeting), he said, it would be refurbished and restored "to its former glory." Although the terms for a new lease were not yet final, he said that it would run from between 100 to 125 years.

Questioned about the future of milk deliveries to the doorstep Mr Grinstead said the group would continue them "as long as it is economic to do so."

Rights & Issues

Net asset values of Rights & Issues Investment Trust's income and capital shares improved to 48.5p (47.9p) and 110.2p (113.1p) respectively over the 1984 year. Net revenue advanced from £16,222 to £13,481 after tax of £64,243 (£72,230). A final dividend per income share of 2.8p net makes a same-again 3.8p Final dividend on the capital shares is 0.19p (same).

British Air Ferries to join USM next year

By Alison Hogan

BRITISH AIR FERRIES, air transport and aviation engineering group, is planning to come to the Unlisted Securities Market next year.

The existing management, led by Mr Robin Pesskin, chairman, acquired the company in March 1983 from the Southend-based Keegan group. They have turned the company from a loss-maker to a position where it is expected to make a trading profit of £1.3m on turnover of £17m in the year to March 1985.

British Air Ferries consists of Guernsey Airlines and Jadedpoint Aircraft Engineering. The group, under its holding company Jadedpoint, has a number of property assets in the south.

Guernsey Airlines has 17 aircraft. Its main routes are to the Channel Islands from locations in England including Gatwick. It has begun a scheduled flight between Gatwick and Rotterdam. The company undertakes freight and passenger traffic and in January signed a two year contract with Shell for the transport of oil personnel from Aberdeen.

The group would have a market capitalisation of about £10m based on its existing business, but that value could increase significantly by the time of flotation, according to Mr Pesskin.

The group is negotiating with other companies in the travel industry, which could result in mergers or acquisitions.

TI joint venture will be 'world leader'

TI, the home appliances and engineering group, and Alco Standard Corporation of the U.S. are creating a 50-50 joint venture to merge their specialised industrial furnace businesses in Europe and the U.S.

The venture, which will be a world leader in its field, starts with combined net assets of \$20m (£19m) and turnover of over \$60m. TI will have operational responsibility and has an option to acquire the whole within three years.

"I got into the furnace business four years ago when I acquired King Fifth Wheel, a U.S. aerospace component manufacturer. King Fifth's subsidiary, Abcar, makes a wide range of vacuum furnaces for metal treatment and coating processes and has a strong position in the U.S. Abcar's subsidiaries in the U.S. and West Germany have similar products with a strong presence in Western Europe."

The Directors of Unilever announce the Companies' provisional results for the fourth quarter and for the year 1984, and their ordinary dividend proposals. The provisional profit and loss account shown below is an abridged version of the one which will appear in the Companies' full accounts to be published on 23rd April. The full accounts for Unilever N.V. and Unilever PLC have not yet been filed with the Commercial Registry in the Netherlands or the Registrar of Companies in the United Kingdom, and have not yet been reported on by the auditors.

Fourth Quarter		Increase/Decrease (%)	Full Year (Closing Rates)		Increase/Decrease (%)	Comparable Rates
1984	1983		1984	1983		
3,962	3,500	13%	16,161	13,388	21%	12%
196	167	17%	929	748	24%	16%
23	18		63	49		
2	4		8	11		
36	26		111	111		
(56)	(42)		(187)	(180)		
201	173	16%	924	769	20%	14%
(91)	(77)		(414)	(350)		
23	(3)		25	(3)		
(9)	(7)		(38)	(34)		
124	86	44%	497	382	30%	23%
5						
129	86	50%	497	382	30%	23%
51	48		205	170		
78	38		292	212		
34.73p	23.15p	50%	133.80p	102.84p	30%	23%
(66)			(28)			
			471	382		
43	86		(165)	(143)		
			(58)	(49)		
			(109)	(94)		
			306	239		

Exchange Rates The results for the quarter and the comparative figures for 1983 have been translated at comparable rates of exchange. These are based on £1=Fl.4.44=U.S.\$1.45, which were the closing rates of 1983. An exception has been made for the results that have arisen in hyper-inflationary economies, which for the current quarter have been translated at the closing rates for 1984. The profit attributable to ordinary capital for the current quarter has also been translated at the closing rates for 1984 being based on £1=Fl.4.13=U.S.\$1.16, which will be used for the Annual Accounts 1984.

The results and earnings per share for the full year 1984 have been translated at the closing rates for 1984. The 1983 figures for the full year are based on the closing rates for 1983. The trends are therefore influenced by the changes in exchange rates during the year. For comparison purposes the trends have also been shown based on comparable rates of exchange.

ACQUISITION OF BROOKE BOND GROUP plc

On 10th October, 1984 Unilever announced a final offer for the ordinary share capital of Brooke Bond Group plc, and on the same day Unilever acquired sufficient shares to give it a controlling interest. By the end of 1984 Unilever's shareholding had increased to more than 97%. Brooke Bond's profit for the fourth quarter of 1984 is not included in Unilever's 1984 results but will be taken up in 1985, together with the fourth quarter finance costs resulting from the acquisition, which are also being carried forward to 1985.

RESULTS FOURTH QUARTER 1984

In the fourth quarter of 1984, at comparable rates of exchange, the value of sales was 13% higher than in the corresponding quarter in 1983. Operating profit increased by 17%.

Europe showed a significant improvement with results 28% above the fourth quarter of 1983. Frozen foods and other food and drinks made substantial contributions to the improvement. Detergents and most of our other European activities also showed gains. Notable exceptions were edible fats and dairy, whose results were well down, and animal feeds which had another disappointing quarter. In North America we had a buoyant quarter with results 30% higher than in 1983. All our companies in the United States contributed to this improvement, with Lipton having substantially higher results.

UAC International's results improved against the low level of 1983. Our businesses outside Europe and North America had another good quarter, particularly in edible fats and personal products.

The favourable taxation adjustments previous years is the consequence of changes to the provisions for taxes in number of countries. Profit attributable before extraordinary items, at comparable exchange rates, was up by 44%.

FULL YEAR 1984

For the full year 1984, at comparable rates of exchange, the total value of sales increased by 12%. Operating profit improved by 16%.

In Europe we made substantial progress with the value of sales up by 9% and results up by 18%. Frozen foods, other food and drinks and some recovery in our packaging businesses, made major contributions to the overall gain. Restructuring costs depressed the edible fats results which also suffered from European Community subsidies on butter intended to correct for past over-production. The milk quota introduced to restrain future production was the main reason for much lower volume and profits reported by our animal feeds operations.

In North America, helped by acquisitions, the value of sales increased by 18% and operating profit by 8%. In the United States Lever Brothers made a heavy investment in new products, but both Lipton and National Starch made a good contribution. Our Canadian companies had lower results.

In total, results of UAC International remained at a low level. Results of our businesses outside Europe and North America

improved by 18%, including an excellent contribution from our plantations.

Our Nigerian associates account for the improved performance of our associated companies. They had a better year, despite the trading difficulties they encountered. Taxation charges compare favourably with 1983, mainly as a result of taxation adjustments previous years in a number of countries.

At comparable rates of exchange profit attributable before extraordinary items was 23% higher than in 1983. At closing rates of exchange, reflecting the weakening of sterling in the year and the strength of the dollar, the increase was 30% in sterling; corresponding to increases of 21% in guilders and 4% in dollars.

EXTRAORDINARY ITEMS

We have decided to dispose of a number of businesses which we do not see as central to our strategy. The extraordinary item of £86 million in the fourth quarter comprises losses arising, and provisions for estimated losses less surpluses, consequent on this decision.

The extraordinary items for the full year are the fourth quarter charge less the £60 million reduction in the 1983 balance sheet provision for United Kingdom deferred taxation reported in the third quarter. The extraordinary items are not included in the calculations of combined earnings per share.

DIVIDENDS

The Boards today resolved to recommend to the Annual General Meetings to be held on 15th May, 1985 the declaration of final dividends in respect of 1984 on the Ordinary capitals at the following rates which are equivalent in value at the rate of exchange in force on 31st December, 1984 in terms of the Equalisation Agreement between the two companies:

PLC 24.03p per ordinary 25p Ordinary share (1983: 20.29p), bringing the total of PLC's dividend declarations for 1984 to 35.52p per share (1983: 30.86p).

N.V. Fl.9.45 per Fl.20 Ordinary capital (1983: Fl.8.58), bringing the total of N.V.'s dividend for 1984 to Fl.14.11 per Fl.20 Ordinary capital (1983: Fl.13.02).

The PLC final dividend will be paid on 29th May, 1985 to shareholders registered on 30th April, 1985. The N.V. final dividend will be payable as from 28th May, 1985.

For the purpose of equalising dividends under the Equalisation Agreement, the Advance Corporation Tax ("A.C.T.") in respect of any dividend paid by PLC has to be treated as part of the dividend. If the effective rate of A.C.T. applicable to payment of the final dividend is changed from the current rate of 3/7ths, the amount now announced will be adjusted accordingly and a further announcement made.

UNILEVER REPORT AND ACCOUNTS 1984

The Report and Accounts for 1984, which will be published on 23rd April, will also include current cost accounts.

5th March, 1985

Unilever Quarterly Results are reprinted in leaflet form. If you wish to be included in the mailing list for these leaflets please write to: External Affairs Department, P.O. Box 68, Unilever House, London EC4P 4BQ.

Johnstone's Paints profits down but prices improving

Lower pre-tax profits of £1.52m were achieved at Johnstone's Paints for the year to December 1 1984. This compares with £1.83m for the previous 52-week period. Some £1.03m of the 1984 profits were made in the second half, against £1.24m last time.

Mr James Johnstone, the chairman of this Manchester-based paint manufacturer, says that there are now signs in the industry that selling prices are reversing the 1984 downward trend, however.

The final dividend is being held at 2.25p net per 10p share, making a same again 4p total. Stated net earnings for the company, which has its shares quoted on the USA market, were down at 11.28p per share, compared with 13.33p.

Mr Johnstone says that the

improvement in the industry gives the company the scope to retain profit margins in the current year, at a time when raw material prices are still increasing due to the strength of the U.S. dollar.

He points out that turnover for 1984 moved ahead, from £10.21m to £10.47m, and says that with an asset base of 75p per share, and over £2m in deposits and short-term investments, the company is poised to take advantage of any upturn in the UK economy.

Turnover to date in the current year is ahead of the corresponding period, he adds.

The company is well on the way to achieving the BS 5750 standard, the new quality assurance system laid down by the British Standards Institute, he

adds. This will enable the company to compete in a market sector not previously available to it.

The Newcastle depot was opened in February, and the company aims to expand its depot network even further in 1985, with new depots in other major cities. This expansion will increase the market share in areas not previously covered in depth.

The chairman says that the company has also now completed the warehouse extension at Droylsden which will enable the factory to meet the expected demand from these new markets.

The tax charge this time accounted for £338,000 compared with £228,000. In addition, there was an extraordinary debit of £196,000, being deferred tax.

Downturn at Technology for Business

HIGHER operating expense and interest charges were reflected in a fall in pre-tax profits of Technology for Business from £213,000 to £272,000 for the year ended December 31 1984.

Because of acquisitions, the scale of the group's operations have more than doubled. However, the effect of financing the working capital requirements of the enlarged group, prior to the proceeds of the preference share issue becoming available, was to reduce taxable profits by 13 per cent.

The directors feel that this was an acceptable price to pay for the substantially enhanced potential which could result in doubling turnover in 1985. Turnover in 1984 was 77 per cent higher to £4.4m, compared with £2.48m.

The single dividend is raised from 4.2p to 4.65p net. The company, engaged in marketing and servicing of small computers, came to the Unlisted Securities Market in July, 1983, and has "close status".

With the integration of RAR, a UK maker of business computers, a much larger base of potential engineering revenue is available, say the directors. They will be paying particular attention to developing this aspect of the business in the coming year.

Overall, the directors expect some economies from rationalisation, and they also anticipate commercial opportunities arising from integration.

In the coming year, the company hopes for a significant contribution from its subsidiary in Germany where the directors say the position appears encouraging. Performance in the distribution of peripherals has been below expectations, but positive steps have been taken to improve profitability in the coming year, state the directors.

Flexible profits were after charging higher operating expenses of £1.98m against £1.77m and interest payable of £41,000 (£40,000), but included investment income of £7,000 (£28,000). Net profits came out at £248,000 (£291,000), after tax of £28,000 against £22,000.

Earnings per 10p ordinary share were stated at 8.17p against 8.65p.

Pepe allocations heavily rationed

The offer for sale of 5.5m shares in the Pepe group was oversubscribed 20 times. Of the shares available to the public, 28,738 applications were received for a total of 105,78m shares.

Allocations have been scaled down. Applications for 200 to 1,500 shares go into a ballot for 1,500 shares, those applying for 2,000 to 4,500 receive 2,000 shares and applications for 5,000 shares or more get 5 per cent of the shares applied for to a maximum of 25,000 shares.

Members of Pepe's staff applied for 294,400 shares.

H. Young Holdings has conditionally agreed to purchase 98 per cent of Lacerre for an initial consideration of £884,444.

Lacerre produced pre-tax profits of £118,000 in calendar 1984. It is based in Cardiff and sells and distributes wines to wholesale, retail and investment clients, primarily in Wales but also in the southern counties and London.

Provident Financial moves up to £19.4m despite miners strike

DESPITE BEING affected by the miners' strike to the tune of at least £2m, profit from Provident Financial Group has come to £19.4m in 1984. This compares with £17.8m in the previous year.

In the weekly credit business the underlying quality of the debts has not deteriorated as feared in 1982, and the company has seen fit to bring back the special charge of £1.5m, made then.

Shareholders are to receive a final dividend of 7p bringing their total up from 5p to 10.5p net.

The group has made a good start to the current year. Although high interest rates are unwelcome, the extensive use of interest swap arrangements makes the group less exposed than it was, the directors state.

Development of other businesses in the group continues. Colonnade Insurance Brokers, Whitegates Estate Agency and the merchandising subsidiaries have been expanded significantly.

In 1984 turnover rose from £213.2m to £232m, deferred revenue from £54.9m to £58.4m, and amounts due by customers from £231m to £292.7m. Interest charges were up slightly at £14.8m (£14.2m).

After tax £9.6m (£7.8m) the net profit came out at £9.78m (£9.73m), of which dividends absorb £4.3m (£3.68m) and

U.S. \$100,000,000

GW[®]Great Western Financial Corporation
(Incorporated in Delaware)

Floating Rate Notes Due 1995

In accordance with the provisions of the Notes, notice is hereby given that for the three month Interest Period from 6th March, 1985 to 6th June, 1985 the Notes will carry an Interest Rate of 9 3/4% per annum. The interest amount payable on the relevant Interest Payment Date which will be 6th June, 1985 is U.S. \$1,261.81 for each Note of U.S. \$50,000.

Credit Suisse First Boston Limited
Agent BankDANSK OLIE & NATURGAS A/S
US\$100,000,000 GUARANTEED FLOATING RATE
NOTES DUE APRIL 1999Guaranteed by
THE KINGDOM OF DENMARK

Notice to the holders of the above mentioned Notes. Notice was given to the Noteholders that, by a Draft Poll dated as at 15 February, 1985 made by Dansk Olie & Naturgas A/S (the "Shareholder") and The Kingdom of Denmark, the Subordinated Notes (the "Notes") were amended in accordance with the provisions of the Notes, substituted for Dansk Olie & Naturgas A/S (the "Original Issuer") as principal debtor in respect of the Notes.

Concomitant with what was stated in the Notice dated February 21, 1985 the Notes will continue to be listed on the Luxembourg Stock Exchange in the name of the Original Issuer and will be issued by the name of the Subordinated Issuer and not vice versa, and all future notices to Noteholders will be given under the name of the Original Issuer followed by the name of the Subordinated Issuer and not vice versa.

March 6, 1985
THE CHASE MANHATTAN BANK N.A. AS FISCAL AGENT

Tax Relief 1984/85

PALLADIAN ESTATES PLC
(Incorporated in the United Kingdom and registered in England - No. 1884175)Offer for Subscription
under the
Business Expansion SchemeSponsored by
Mathercourt Securities Limited
(Licensed Dealer in Securities)

of up to 1,500,000 Ordinary Shares of 50p each at 60p per share payable in full on application.

The minimum subscription of 300,000 shares has been underwritten and they will be issued by 28th March 1985.

The Company has been formed to purchase, restore or develop and sell period properties in London and the Home Counties.

Applications will only be accepted on the application form attached to the Prospectus and on the terms set out therein. Copies of the Prospectus are available from:

Mathercourt Securities Limited, 1 Lincoln's Inn Fields, London WC2A 3AA. Tel: 01-451 9901

or Subordinate Limited, 25 Bedford Row, London WC1R 4HE. Tel: 01-405 1058.

THE
CHASE MANHATTAN
CORPORATION

US\$400,000,000

Floating Rate Subordinated Notes due 2009

For the three months
5th March, 1985 to 5th June, 1985
the Notes will carry an interest rate of 9 3/4%
per annum with a coupon amount of
US\$249.17 per US\$100,000 Note, payable
on 5th June, 1985.

Bankers Trust Company, London
Agent Bank

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- Directors had luncheons in a private dining room.
- Dealer salesforces were paid incentives for on-target performance.
- Senior managers had the opportunity to buy their cars at attractive rates.
- Part-time and self-employed workers were paid out of petty cash.

Last year the Inland Revenue said "...our performance for the year to 31 October 1983 was much improved. More than 61,000 (PAYE) inspections were carried out...20,000 cases yielded, with penalties, £43.8 million."

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ORIFLAME INTERNATIONAL SA Preliminary Statement for the year ended 31st December, 1984

	Year ended 31st December, 1984	Year ended 31st December, 1983
Sales	29,191	24,462
Operating profit	4,585	3,941
Other income and expenses, share of results of associated companies	(247)	(574)
Profit before tax	4,812	4,515
Tax	548	442
Profit after tax	4,264	4,073
Earnings per share	79.9p	76.3p
Dividend per share	46.8p	36.6p
Cost of dividend (£000)	2,496	1,952

Points from the Statement by the Chairman, Jonas af Jochnick:

- * 1984 sales growth of 19% and operating profit growth of 16%.
- * Dividend increased by 28% over 1983.
- * Continued strong growth in Scandinavia.
- * Return to growth in the United Kingdom.
- * Increased pace of growth in North America.

Copies of the Report and Accounts for 1984, containing the notice of the Annual General Meeting and the Extraordinary General Meeting to be held on 2nd May, 1985 can be obtained on or after 9th April, 1985 from Morgan Grenfell & Co. Limited, New Issue Department, 21 Austin Friars, London EC2N 2HS, where arrangements may also be made for voting by proxy.

Oriflame International SA is the holding company of an international group of direct marketing companies. Oriflame markets, through direct sales methods throughout Western Europe and Scandinavia, its own brand of cosmetics, the majority of which it formulates and produces. Recent expansion has taken place into the North American and Far Eastern markets. The Group owns the specialty mail order group Lagonde, which originated in Sweden but now also operates in Norway and Finland.

Oriflame

Merchants Trust pays 3p and upgrades forecast

WITH EARNINGS rising from 2.43p to 3.04p per share in the year ended January 31 1985, Merchants Trust is lifting its dividend from 2.43p to 3p. The final payment is 1.7p compared with a forecast of not less than 1.5p.

The dividend forecast for the current year is also being upgraded. Last August the directors had been switching emphasis to income growth and promised a total dividend of not less than 3.5p. They now say this will be at least 3.75p.

Resource Technology disappoints midterm

EVEN ALLOWING for the bias in favour of the second half and the effects of reorganisation, profit of Resource Technology for the six months to October 31 1984 were disappointing, says the chairman Mr R. J. Stallard. He reports a profit down from a restated £647,000 to £277,000.

An extensive reorganisation is being implemented, involving the rationalisation of recent acquisitions, strengthening of management, restructuring of operating subsidiaries, and action to take account of changes in market conditions.

A major effort is being made to complete the reorganisation, with its short-term disruptions, within the current year, says the chairman. Measures are also under consideration to reduce short-term borrowings and improve earnings per share.

While projections for the second half of the current year show a better result in terms of trading profits than the first, the reorganisation measures should make their first significant impact in 1985-86.

First Venture

First Venture Capital Corporation has made an offer for the issued capital of Prior Harwin Securities. The acquisition is subject to approval of shareholders in both companies.

Granville & Co. Limited

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27/28 Lovat Lane London EC3R 8EB Telephone 01-421 1212

Over-the-Counter Market

High	Low	Company	Price	Change	Gross Yield	Fully Paid
144	123	Ass. Brit. Ind. Ord.	142	—	10.0	8.8
151	126	Ass. Brit. Ind. CULS.	150	—	10.0	8.8
77	81	Aurum Group	80	—	4.4	8.7
42	38	Armitage & Rhodes	35	—	2.9	6.3
143	108	Borden Hill	143	—	3.4	2.4
58	42	Bry. Tech. Ind. Ord.	47	—	3.5	7.4
201	170	CCL Ordinary	170	—	12.0	7.1
162	110	CCL 11p Conv. Pref.	110	—	15.7	13.8
875	100	Carborundum Ord.	87	—	10.7	12.2
86	84	Carborundum 7.5p Pl.	86	—	10.7	12.4
103	43	Candor Group	438	—	8.8	12.0
22	21	Orbital Services	302	—	9.6	3.7
302	182	Frank Hensell	261	—	9.6	3.7
261	170	Frank Hensell Pr. Ord	261	—	9.6	3.7
32	25	Friedrich Tietz	56	—	2.7	7.8
56	34	Georgia Blair	57	—	2.7	7.8
50	37	Ind. Precision Castings	186	—	15.0	10.0
218	188	Ind. Precision Castings	186	—	15.0	10.0
124	104	Jackson Group	104	—	4.9	4.7
283	213	James Burgess	265	—	12.9	10.0
52	43	James Burgess Spcl.	86	—	12.9	10.0
87	71	John Howard and Co.	84	—	5.0	6.0
170	100	Lingaphone Ord.	100	—	15.0	15.8
100	83	Lingaphone 10p Pl.	100	—	15.0	15.8
610	300	Minihouse Holding NV	610	—	2.3	6.8
150	31	Reber-Jung	122	—	9.0	12.2
60	26	Scrutons "A"	32	—	5.7	17.6
82	61	Torday & Carville	78	—	4.3	1.2
44	27	Trevill Holdings	37	—	1.3	5.0
27	17	Unico Holdings	26	—	7.5	7.9
36	31	Walter Alexander	224	—	17.4	7.7
247	224	W. S. Yates	224	—	17.4	7.7

S= Suspended.

Prices and details of services now available on Prestel, page 68146

JOHNSTONE'S PAINTS PLC

Final Results

The Group Results for the 52 weeks ended 1st December, 1984 are shown below with comparable figures for the 53 weeks ended 3rd December, 1983.

	52 weeks to 1/12/84 £000	53 weeks to 3/12/83 £000
Turnover	10,469	10,214
Profit before taxation	1,520	1,927
Earnings Per Share	11.28p	13.33p
Dividend Per Share	4.00p	4.00p

Johnstone's Paints PLC is pleased to take advantage of any upturn in the economy of the country.

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Provident Financial Group. Continuing to build on success.

The 1984 result represents a further advance on 1983's record profit, although it was affected by the miners' strike to the extent of at least £2 millions.

In the weekly credit business, successful efforts have been made to recruit new customers. The underlying quality of the debts has not deteriorated as feared in 1982 and the special charge of £1.5 millions made then has been brought back.

Development of the other businesses in the Group continues. Colonnade Insurance Brokers Limited, Whitegates Estate Agency Limited and the merchandising subsidiaries have been significantly expanded.

The Group has made a good start to 1985. Although high interest rates are unwelcome, the extensive use of interest swap arrangements makes the Group less exposed than it was.

The 1984 Report and Accounts will be posted to shareholders on 18th March 1985. Copies may be obtained from the Secretary.

Provident Financial Group PLC

Colonnade, Sunbridge Road, Bradford, BD1 2LQ Tel: 0274 733321

Results at a glance

for the year ended 31st December 1984

	1984	1983
TURNOVER (£000)	329.10	313.16
PROFIT FOR THE YEAR (£000)	19.41	17.42
EARNINGS PER SHARE (PENCE)	23.73	23.61
DIVIDENDS PER SHARE (PENCE)	10.5	9.0

UK COMPANY NEWS

INVESTING FOR BEGINNERS

By Daniel O'Shea

This book is based on a complete series of articles published in the Investors Chronicle under the heading "Beginners Guide to the Stockmarket." It analyses the basic principles of stock-market investment, discusses the different categories of quoted investment, examines a whole range of related essentials such as interpretation of company accounts and gives an up-to-date review of relevant tax rules.

Published October 1984

Price (including postage and packing): £8.75 UK or £10.25/US\$18 overseas. Please note payment must accompany order.

Further details available from: The Marketing Dept FINANCIAL TIMES BUSINESS INFORMATION 105 Clerkenwell Road London EC1M 6SA Tel: 01-3251 9321 Telex: 237700 (Main order address only)

EQUITABLE UNITS

Daily prices as at 5 March 1985

EQUITABLE UNITS ADMINISTRATION LIMITED 35 Finsbury Street, Manchester M2 2AF Tel: 061-236 5685

Authorized Unit Trust Prices Bid Offer Yield %

Far Eastern 95.4 95.0 0.32

Glit & Fed Int 92.0 91.8 0.58

High Income 92.2 92.0 0.58

North America 93.3 93.1 0.39

Pollard - See LIT Information Service

Special Situations 92.2 92.0 0.37

Tot of Invest Yrs 95.1 95.0 0.37

ASSURANCE SOCIETY 4 Coleman Street, London EC2R 5AP 01-606 9871

Insurance Fund Prices Bid Offer

Far Eastern 108.1 113.8

Ed of Invest Yrs 107.9 113.8

Glit & Fed Int 95.5 106.5

High Income 103.8 109.4

Managed 100.8 106.1

Money 95.5 101.8

North America 114.1 120.1

Pollard 103.0 108.4

Property 108.7 109.2

Social Situations 108.7 109.2

Pension Fund Prices Bid Offer

Pena Far Eastern 112.1 118.0

Pena Glit & Fed Int 111.6 117.5

Pena High Income 108.2 111.8

Pena Managed 103.2 106.6

Pena Money 95.1 101.8

Pena North America 120.0 126.4

Pena Pollard 104.8 110.8

Pena Property 108.7 109.2

Pena Social Situations 108.7 109.2

STOCK EXCHANGE BUSINESS IN FEBRUARY

Turnover declines sharply from January record

BY GRAHAM DELLER

STOCK EXCHANGE turnover last month contracted sharply in all sectors from January's record levels with gilt-edged securities and equities displaying obviousness over sterling's weakness against the dollar.

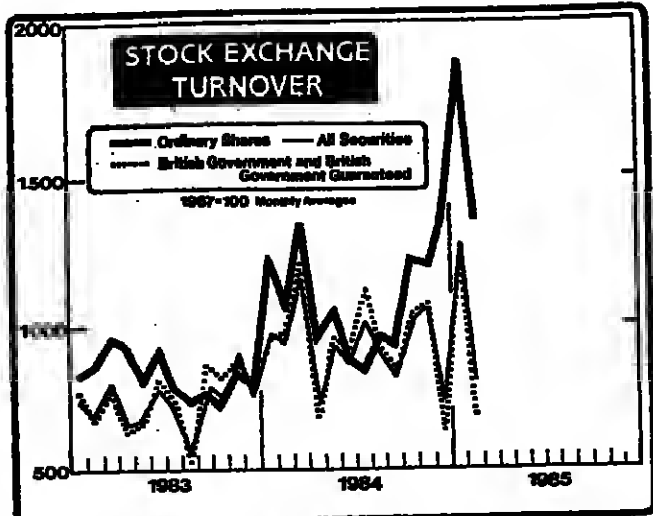
The decline in business, partly attributable to three fewer trading days in February, was reflected by the Financial Times turnover index for all securities which dipped to 808.1, compared with January's high of 1,258.9. Overall turnover, at £26.31bn, showed a drop of £14.77bn, or 36 per cent, while the number of bargains transacted displayed a commensurate decrease, falling 155,409 to 335,151. The average value per bargain fell £700 to £17,200.

British Government securities, steady at the beginning of February following satisfactory money supply figures, subsequently fluctuated with the ebb and flow of sterling. The rate "tuned" to a low against the dollar of \$1.0366 before central bank intervention prompted a sharp recovery in all major European currencies.

Sentiment in gilts was also adversely affected by the disappointing public spending borrowing requirements for January and doubts concerning the Chancellor's scope to implement sizeable cuts in direct personal taxation. Low-coupon stocks received a boost late in the month following Mr Lawson's surprise move to abolish the "dividend-stripping" tax loophole and this helped the FT Government Securities index, which was down to 79.23 on February 12, to close the month a net 0.47 higher at 80.56.

Turnover in short-dated issues fell £5.49bn, or 39.1 per cent, to £8.55bn, while business in longer-dated maturities and irredeemables declined £6.88bn, or 45.7 per cent to £7.65bn. The Financial Times turnover index for Government securities dipped to 698.4 from the January record of 1,213.6.

Sterling's slide also took a toll on equity business, both institutional and private investors appearing reluctant to either buy or sell. Consumer sectors were particularly subdued ahead of this month's Budget with sentiment unsettled by the possibility of still higher interest rates. Good trading results from ICI, which became the first UK industrial group to announce annual profits in excess of £1,000m, and Plessey, failed to restore confidence to any great extent and the FT Ordinary Share index closed the month a net 6.2



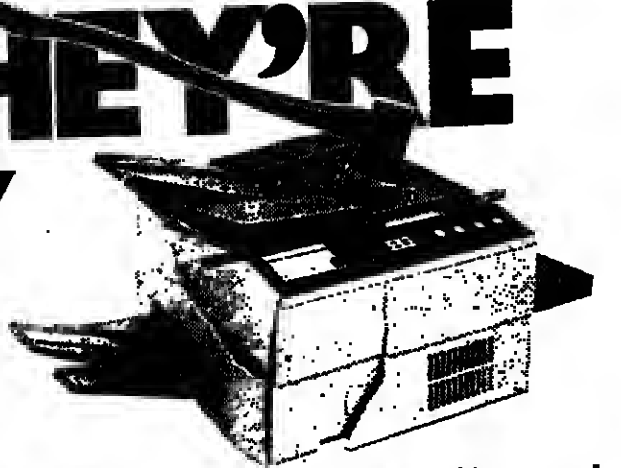
points lower at 979.9. Business in equities fell £2.55bn, or 27.3 per cent to £7.60bn, while the Financial Times turnover index for ordinary shares was 1,356.0 against January's all-time peak of 1,846.0.

A minor decline in the FT Gold Mines Index during the month — it fell 4.1 to 465.5 — disguised some erratic swings in the sector. Bullion's resolute showing early in the month when it held up well in the face of the ever-appreciating dollar boosted the index to 511.4 on the 18th, its best level since early December. However, the precious metals market cracked in the last week of February and sentiment in Golds suffered a sharp reverse, with the index retreating to 441.4 on the 25th before staging a moderate recovery to 465.5.

Category	Value £m	% of total	No. of bargains	% of total	Average daily value £m	Average bargain value £000s	Average no. of daily bargains
BRITISH FUNDS							
Short dated (5 years or less)	8,545.2	32.5	25,714	4.8	427.3	332.3	1,286
Others (over 5 years)	7,955.1	30.2	35,578	6.6	397.8	223.6	1,779
IRISH FUNDS							
Short dated (5 years or less)	1,199.4	4.6	1,826	0.4	68.8	456.8	91
Others (over 5 years)	513.7	2.0	2,221	0.4	25.7	221.3	116
UK LOCAL AUTHORITY OVERSEAS GOVERNMENT OTHER FIXED INTEREST							
Short dated (5 years or less)	146.8	0.5	2,278	0.5	7.3	61.4	119
Others (over 5 years)	110.4	0.4	1,833	0.3	5.5	60.2	92
ORDINARY SHARES	7,998.9	28.9	441,224	82.5	379.9	17.2	22,861
TOTAL	26,307.7	100.0	535,151	100.0	1,315.4*	49.2*	26,758*

* Average of all securities.

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Euromarkets in 1985

London: 1 & 2 April, 1985

This year's Financial Times Euromarkets conference — the fifteenth in the series — will be held at the Hotel Inter. Continental in London on 1 & 2 April. 1985 sees a number of major developments which make this year's conference as interesting as those held in the early '70s.

The distinguished panel of contributors will include:

Mr S Parker Gilbert
Dr Michael von Clemm
Mr David C Mulford
Mr Sven Wallgren
Mr Robert E Mnuchin
Mr John Forsyth
Mr David Hale

Mr SM Yassukovich
Dr Benito Raul Losada
Mr Andrew Large
HE Mr Moriyuki Motono
Mr Geoffrey Bell
Joan Beck
The Rt Hon Francis Pym MC, MP

A Financial Times International Conference in association with The Banker

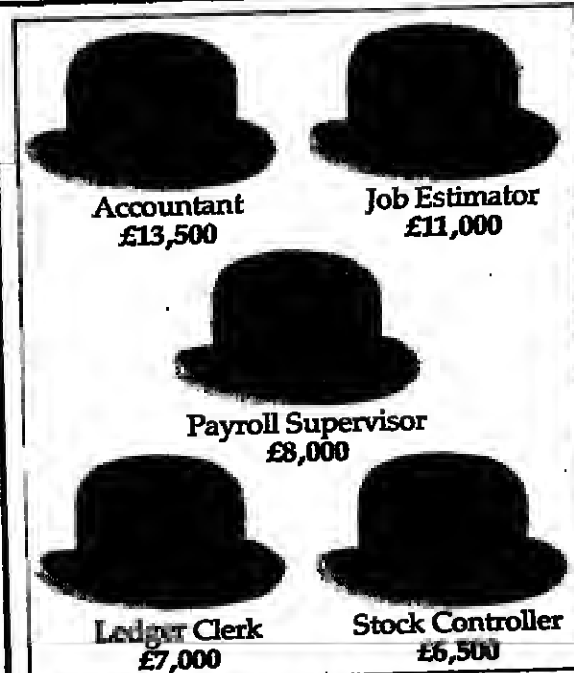
Euromarkets in 1985

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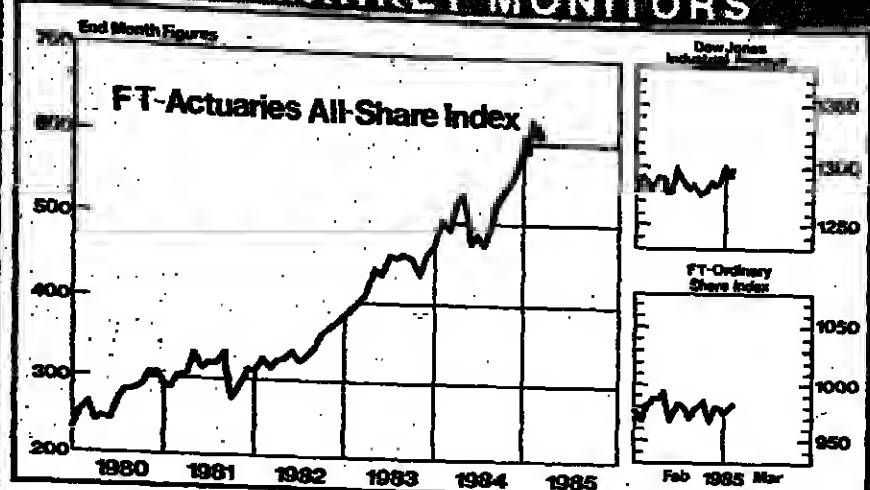
SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

Wednesday March 6 1985

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KEY MARKET MONITORS



NEW YORK	Mar 5	Previous	Year ago
DJ Industrials	1,204.81	1,289.53	1,165.20
DJ Transport	629.76	630.20	513.68
DJ Utilities	147.88	148.03	128.81
S&P Composite	182.14	182.05	157.89

LONDON	Mar 5	Previous	Year ago
FT Ord.	982.0	979.9	841.6
FT-SE 100	1,274.9	1,265.7	1,053.7
FT-A All-share	614.79	610.53	502.55
FT-A 500	672.02	667.02	541.28
FT Gold mines	476.2	477.8	702.6
FT-A Long gilt	10.83	10.82	10.06

TOKYO	Mar 5	Previous	Year ago
Nikkei-Dow	12,478.38	12,509.01	10,088.9
Tokyo SE	986.35	980.39	787.41

AUSTRALIA	Mar 5	Previous	Year ago
All Ord.	798.0	798.1	795.1
Metals & Mins.	480.2	480.9	512.4

AUSTRIA	Mar 5	Previous	Year ago
Credit Aktien	71.76	73.39	55.28

BELOM	Mar 5	Previous	Year ago
Belgian SE	2,289.66	2,270.12	-

CANADA	Mar 5	Previous	Year ago
Toronto	2,095.1	2,104.9	2,254.0
Metals & Mins	2,641.2	2,628.5	2,433.0
Industrial	132.33	131.71	119.41

DENMARK	Mar 5	Previous	Year ago
Copenhagen SE	n/a	177.28	195.53

FRANCE	Mar 5	Previous	Year ago
CAC Gen	204.6	204.6	183.9
Ind. Tendance	110.5	110.50	87.36

WEST GERMANY	Mar 5	Previous	Year ago
FAZ- Aktien	415.37	415.40	351.77
Composite	1,195.1	1,207.3	1,094.4

HONG KONG	Mar 5	Previous	Year ago
Hang Seng	1,367.94	1,368.46	1,102.05

ITALY	Mar 5	Previous	Year ago
Banca Comm.	269.51	279.72	222.48

NETHERLANDS	Mar 5	Previous	Year ago
ANP-CBS Gen	204.8	204.2	161.8
ANP-CBS Ind	161.8	161.4	132.3

NORWAY	Mar 5	Previous	Year ago
Oslo SE	317.84	321.66	263.79

SINGAPORE	Mar 5	Previous	Year ago
Straits Times	847.56	850.35	1,018.08

SOUTH AFRICA	Mar 5	Previous	Year ago
Gold	n/a	916.9	1,059.3
Industrials	n/a	847.6	1,015.1

SPAIN	Mar 5	Previous	Year ago
Madrid SE	112.73	113.30	85.03

SWEDEN	Mar 5	Previous	Year ago
J & P	1,444.64	1,445.39	1,527.53

SWITZERLAND	Mar 5	Previous	Year ago
Swiss Bank Ind.	424.5	423.1	367.7

WORLD	Mar 5	Previous	Year ago
Capital Int'l	198.1	197.8	184.0

GOLD (per ounce)	Mar 5	Previous	Year ago
London	\$268.00	\$268.50	\$268.50
Zurich	\$268.25	\$268.75	\$268.75
Paris (filing)	\$268.05	\$268.95	\$268.95
Luxembourg	\$268.75	\$269.25	\$269.25
New York (Apr)	\$267.90	\$269.90	\$269.90

COMMODITIES	Mar 5	Previous	Year ago
Silver (spot fixing)	\$33.65p	\$32.35p	\$26.35p
Copper (cash)	\$1.283.00	\$1.278.50	\$1.278.50
Coffee (March)	\$2,406.50	\$2,391.00	\$2,391.00
Oil (spot Arabian light)	\$27.90	\$27.75	\$27.75

CURRENCIES	Mar 5	Previous	Year ago
(London)	Mar 5	Previous	Mar 5
U.S. DOLLAR	1.0555	1.0585	1.0585
DM	3.4335	3.376	3.6225
Yen	261.00	258.95	275.25
FFr	10.465	10.315	11.0375
SwFr	2.824	2.893	3.0875
Guilder	3.8785	3.822	4.10
Lira	2,131.0	2,095.75	2,245.0
BPt	88.95	87.85	72.6
CS	1.395	1.3925	1.479

INTEREST RATES	Mar 5	Previous	Year ago
Euro-currency (3-month offered rate)	14%	14%	14%
SwFr	5%	5%	5%
DM	6%	6%	6%
FFr	11%	11%	11%

FT London Interbank fixing (offered rate)	Mar 5	Previous	Year ago
3-month U.S.\$	9%	9%	9%
6-month U.S.\$	10%	10%	10%
U.S. Fed Funds	8%	8%	8%
U.S. 3-month CDs	9.25%	9.25%	9.25%
U.S. 3-month T-bills	8.68%	8.68%	8.68%

SWFT	5%	5 7/8%
DIM	6%	6 1/8%
FFr.	11 1/8%	11%
FT London Interbank fixing		
(offered rate)		
3-month U.S.\$	9%	9%
6-month U.S.\$	10%	10%
U.S. Fed Funds	4 1/8%	4%

AT & T	Mar 5	Previous	Year ago
Price	11.85	11.85	11.85
Yield	10.30	10.30	10.30
Price	11.85	11.85	11.85
Yield	10.30	10.30	10.30

Corporate	Mar 5	Previous	Year ago
Price	11.85	11.85	11.85
Yield	10.30	10.30	10.30
Price	11.85	11.85	11.85
Yield	10.30	10.30	10.30

10% June 1990	80%	11.00	80%	11.00
3% July 1990	74%	10.30	74%	10.30
8% May 2000	74%	12%	74%	12%
Xerox				
10% March 1993	92%	12.20	92%	12.20
Diamond Shamrock				
10% May 1993	91%	12.30	91%	12.30

Federated Dept Stores				
10% May 2019	88.128	12.55	88.128	12.55
Abbot Lab				
11.80 Feb 2013	93.47	12.65	93.47	12.65
Alcoa				
12% Dec 2012	94.36	13.00	94.36	13.00

FINANCIAL FUTURES				
CHICAGO -	Latest	High	Low	Prev
U.S. Treasury Bonds (CBT)				
8% 32nds of 100%				
March	89-07	89-09	88-28	88-22

U.S. Treasury Bills (BMM)				
\$1m points of 100%				
March	91.34	91.36	91.32	91.30
Certificates of Deposit (BMM)				
\$1m points of 100%				
March	90.65	90.68	90.59	90.54
LONDON				

Three-month Eurodollar				
\$1m points of 100%				
March	90.23	90.28	90.15	90.29
20-year National Gilt				
£50,000 32nds of 100%				
March	103-22	104-03	103-22	104-05

The graph displays a single data series over an unspecified time period. The vertical axis (y-axis) is marked with values 1300, 1400, and 1500. The horizontal axis (x-axis) is not labeled. The data line starts at approximately 1350, rises to a local peak of about 1400, dips to a local trough of about 1380, rises again to a higher peak of about 1450, and then fluctuates between 1400 and 1420 before ending.

Hong Kong
Hang Seng Index
July 31, 1984=100

1100	Dec 1984	Jan	Feb 1985	Mar
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WALL STREET

Time judged ripe to consolidate

A MOOD of consolidation enveloped Wall Street stock markets yesterday, while in the credit markets yields declined amid the view that the recent firmness may have been overdone, writes Michael Morgan in New York.

Stocks opened marginally ahead but soon turned lower as the market decided that it was not yet ready for another assault on record highs.

The Dow Jones industrial average closed 2.32 higher at 1,291.65.

Activity was again subdued in the credit markets but prices held on to their early gains despite the absence, for the second consecutive day, of any move by the Federal Reserve to add liquidity to the market.

Fed funds opened marginally lower and later eased further to 6 1/2 per cent. Among the Treasury coupon issues the price of the key long bond, the 1 1/4 per cent of 2015, advanced 1/8 to 95 1/8.

At the short end yields declined from the levels set at Monday's weekly auction. The three-month bill was 2 basis points lower at 6.69 per cent, while the six-month bill eased 3 basis points to 6.93 per cent. Rates on certificates of deposit were uniformly lower.

In the stock markets General Dynamics traded 3/8 lower at \$79 - having been 5/8 down at one stage - on the announcement that the Defence Department was suspending overhead payments on military contracts for 30 days while the Pentagon reviews possible irregularities in billing the government.

Phillips Petroleum settled back 3/8 to \$49 1/4 as investors assessed the cost to the company of fending off Mr Carl Icahn's unwelcome bid.

Unocal added 3/8 to \$47 1/4 with the market wondering whether Mr T. Boone Pickens might now make a bid.

Crown-Zellerbach put on 3/8 to \$35 1/4. A 500,000 share block crossed at \$35 prompted market rumours that Sir James Goldsmith, the UK financier, might have resumed buying the company's stock.

Alexander & Alexander put on 1/8 to \$29 1/4 following the announcement that it had put its Sphere Drake underwriting subsidiary in the UK up for sale.

Eastman Kodak was 1/8 higher at \$70 in the wake of its agreement with China of Japan for the production of 55mm cameras that will be sold under the Kodak name.

General Motors edged 1/8 lower to \$79 after the announcement that it is considering a joint diesel engine manufacturing venture with Deere, the world's largest agricultural equipment company.

Deere put on 3/8 to \$33 1/4.

Unilever's American shares added 3/8 to \$51 in the wake of the Anglo-Dutch group's results.

Coastal Corp, the petroleum marketing and refining group, put on a further 3/8 to \$27 1/4 as it filed lawsuits in Michigan and Delaware in an attempt to help its \$60 a share hostile takeover of American Natural Resources and traded 1/8 higher at \$61 1/4.

The Sharon Steel Corporation, of which Miami financier Mr Victor Posner is chairman, eased 3/8 to \$14 in the wake of its statement that it did not make a \$23m interest payment due last Friday.

The Evans Products Company, a building supply and transport service group also controlled by Mr Posner, was 1/8 lower at \$24 after announcing that it might be forced to file for protection if it could not come to an agreement with creditors on repayment of \$600m in debt that became due on January 15.

Sperry picked up much of the previous day's loss to trade 1 1/4 higher at \$52 1/4 as it exercised an option to buy 5m shares in the Bermuda-based Mnemos

and to obtain certain licence rights in Mnemos Technology.

Telerate, the computerised financial information group, dipped 3/8 to \$19 1/4 after it announced the start of a secondary public offering of 5m shares of its stock at \$19 1/4.

Among actively traded stocks on the New York Stock Exchange Occidental Petroleum eased 3/8 to \$28 1/4 and Sony was 1/8 lower at \$18 1/4. On the American Stock Exchange BAT Industries was an active feature, trading unchanged at \$4 while Wang Laboratories dipped 3/8 to \$24 1/4.

EUROPE

Gains eroded after bout of profit-taking

SPORADIC profit-taking developed on the European bourses yesterday as recent gains were eroded in largely technical trading.

Frankfurt, which experienced a 10.9 point rise in the Commerzbank index on Monday, fell 12.2 to 1,195.1.

Siemens was particularly vulnerable. The electrical group slipped DM 5.30 to DM 548.50 from the record level set in the previous session. Others to fall from their highs included BASF, 20 pig cheaper at DM 209.8, Deutsche Bank, DM 4.50 lower at DM 418.50, and Hoechst, which finished the day 60 pf down at DM 209.40.

Car makers managed to shrug off the gloom, however. Daimler, which edged ahead only slightly on Monday, hit a 12-month peak of DM 673.50, a gain of DM 4.40. BMW settled DM 2 stronger at DM 388 and VW picked up DM 1 to DM 196. Porsche fell DM 3 to DM 1,337 with profit-takers particularly active after its recent gains.

The weakness in banks was ascribed to bullish domestic interest rate trends. Commerzbank turned DM 2.70 cheaper at DM 163 and Dresdner DM 2.30 lower at DM 191.50.

Bonds traded up to 50 basis points easier.

The lower opening in Amsterdam was largely reversed by the sparkling results from Unilever, that took the ANP-CBS General index 0.6 higher to 204.80 while the International index reached a record of 225.1, a gain of 1.2 points. Unilever hit an all-time high of Fl 345 with its gain of Fl 8.

Fokker reached a peak level with its 80 cent rise to Fl 100.80. A 60-cent fall to Fl 81.40 for KLM took the airline from its peak set on Monday. Nedlloyd added a respectable Fl 1.90 to Fl 178.4, while Royal Dutch returned to just below its 12-month peak with a Fl 1.50 rally to Fl 204.30.

Boskalis surrendered half of the gain of the previous session with its 10-cent fall to Fl 16.10.

Bonds slumped on interest rate fears although volume in state bonds, which bore the brunt of the pressure, was thin.

A steadier tone emerged in Zurich, with trading volume reduced from Monday's heavy level.

Aluisse scored a SwFr 20 rise to SwFr 905, now near the higher end of its recent trading range, after reporting a return to group profit for 1984 and the resumption of dividends after a two-year lull.

Swissair took the transport sector higher with a SwFr 10 gain to SwFr 1,160, a new high for the year. Quiet hands saw Bank Leu edge SwFr 15 ahead to SwFr 3,715.

Insurers were active with Swiss re- steady at SwFr 9,600 although Zurich Insurance staged a SwFr 100 rise to SwFr 20,650.

A subdued tone in the bond market moved most issues up to 25 basis points either way although the new 5 1/2 per cent warrant bond of Generale Occidentale fell as much as 2 1/2 points from its par issue price.

MILAN

Milan adopted a moderately firmer stance after the Monday performance of profit-takers. Fiat, fresh from reporting the turnaround of Lancia, rose L9 to L2,199.

Bonds were mixed with good demand for the indexed Enel issue.

Profit-taking developed on a broad front in Madrid although volume was light. Banco Bilbao was steady at 337 per cent of nominal value after reporting a 16 per cent profit increase for last year.

Stockholm continued to move ahead. The best performance was by Eselle which rose Skr 15 to a 12-month high of Skr 390. Stora Kopparberg's rise in earnings and dividend left the forest products group unchanged at Skr 145.

Paris turned narrowly mixed at the close while Brussels staged a wide ranging rise in lively trading.

The FT Ordinary index, down 6.3 at the opening, closed 2.1 up on the day at 982.0.

NatWest bank rose 10p to 653p after a 30 per cent profit increase at the pre-tax stage well in excess of market estimates. Midland was also up 10p at 360p.

Gilts suffered losses of 1/4 in morning trading but closed with minor gains.

Chief price changes, Page 30, Details, Page 31, Share information service, Pages 32-33

AUSTRALIA

THE DECLINING Australian dollar and the lack of movement in international gold prices led to dull trading in Sydney. The All-Ordinaries index was up 1.9 to 798.0.

BHP led diversified resource issues with a 4-cent rise to A\$5.68, while Bell Resources was steady at A\$5.30 and CSR slipped 1 cent to A\$2.62.

Oils were mixed with Crusader putting on 5 cents to A\$2.20. Bridge gained 2 cents to A\$2.22, while Santos eased 2 cents to A\$5.48.

Among the mines, Comalco shed 5 cents to A\$2.60, CRA eased 2 cents to A\$5.80 but Asbcon advanced 2 cents to 92 cents.

HONG KONG

AN ACCUMULATION of selling pressure forced Hong Kong stock sharply lower, with the Hang Seng index sliding 31.52 to 1,367.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month	Stock	Dr. Yld.	P/E	100s High	Low	Close	Prev. Close	12 Month	Stock	Dr. Yld.	P/E	100s High	Low	Close	Prev. Close	12 Month	Stock	Dr. Yld.	P/E	100s High	Low	Close	Prev. Close	12 Month	Stock	Dr. Yld.	P/E	100s High	Low	Close	Prev. Close
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MARKET

LONDON

FT-AC

TORONTO

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WORLD VALUE OF THE DOLLAR
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INSURANCE, OVERSEAS & MONEY FUNDS

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar continues to improve

The dollar finished close to its best level of the day on late short-covering as fears of central bank intervention receded. Despite the dollar's firm undertone there was initially some reluctance to push it too far for fear of triggering heavy dollar sales by central banks. However the market remained divided as to whether there would be any concerted effort to contain the dollar's rise as it retained its strong bullish undertone.

The latter was bolstered by an early rise in Euro-dollar rates on fears that the U.S. authorities were likely to tighten their monetary stance. News of a 0.5 per cent fall in U.S. factory orders contrasted sharply with market expectations of a 1.2 per cent rise. However the dollar managed to shrug off the ill effects. It closed at DM 3.4335 from DM 3.3760 and SwFr 2.2940 compared with SwFr 2.2890. It was also firmer against the yen.

Y261.0 from Y259.50 and FF 110.4650 from FF 110.3150. On Bank of England figures, its sterling rate improved from 155.8 to 154.4.

STERLING Trading range against the dollar in 1984-85 1.4940 to 1.6025. February average 1.5933. Exchange rate

index eased to 70.8 from 70.9, having opened at a low of 70.6 and touching a best level at 11 am of 71.0. The six months ago figure was 72.7.

Sterling resisted the dollar's rise in early trading, giving rise to speculation that the Bank of England may have given a helping hand. This remained unconfirmed however and the pound suffered in line with other currencies on the dollar's late surge.

It closed at \$1.0555, a fall of 1.5c from Monday. It touched a best level of \$1.0665 but touched a low of \$1.0535. It improved against the DM to DM 3.6225 from DM 3.60 and SwFr 3.0875 compared with SwFr 3.0850. It was also firmer against the

French franc at FF 110.375 from FF 110.250 but eased against the yen to Y275.25 from Y277.0.

D-MARK - Trading range against the dollar in 1984-85 3.4510 to 3.5555. February average 3.2406. Exchange rate index 117.7 against 122.7 six months ago.

The dollar finished slightly below its best level in Frankfurt but remained firmly underpinned by strong speculative and commercial demand. Fears of central bank intervention receded for a while especially after the Bundesbank had refrained from selling dollars during the fixing. Market bulls were suggesting a new ceiling of DM3.50 unless

Weaker trend

central banks act to deter further speculative buying. Gold fell just \$1 an ounce from Monday's close in the London bullion market yesterday to finish at \$287.3258. The metal opened at \$288.5259 and traded between a high of \$289.5259 and a low of \$287.3258. Trading was rather subdued in the afternoon as the dollar resumed its upward trend and volume slackened noticeably as traders were content to maintain square positions.

\$ in New York

	March 5	Prev. close
\$ spot	81.044-1.046	81.040-1.076
1 month	81.044-1.076	81.040-1.076
3 months	81.044-1.076	81.040-1.076
6 months	81.044-1.076	81.040-1.076
12 months	81.044-1.076	81.040-1.076

Forward premium and discounts apply to the U.S. dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Current rate	% change from 1984-85	% change from 1983-84	% change from 1982-83
Belgian franc	44.3600	44.3600	-0.35	+0.32	+1.522
Danish Kroner	4.4600	4.4600	-2.28	-1.82	+1.819
Deutsche Mark	3.3760	3.3760	-0.35	-0.35	+1.522
French Franc	6.5595	6.5595	-1.10	-0.47	+1.369
Italian Lira	2.3360	2.3360	-0.29	+0.38	+1.571
Spanish Peseta	166.6370	166.6370	-1.48	-1.48	+1.522
Swiss Franc	2.0000	2.0000	-1.38	-1.38	+1.522

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING EXCHANGE RATE INDEX

	March 5	Prev. close
9.30 am	70.8	71.0
10.00 am	70.8	71.0
11.00 am	70.8	71.0
12.00 pm	70.8	71.0
1.00 pm	70.8	71.0
2.00 pm	70.8	71.0
3.00 pm	70.8	71.0
4.00 pm	70.8	71.0

POUND SPOT-FORWARD AGAINST POUND

	Days' spread	Close	One month	% change from 1984-85	% change from 1983-84	% change from 1982-83
U.S.	1.0535-1.0555	1.0550	0.51-0.47c	5.57	1.11-1.09pm	4.71
Canada	1.4780-1.4800	1.4780	0.45-0.37c	2.19	3.53	0.88-0.79pm
Deutsche Mark	3.3760-3.3780	3.3760	0.35-0.25c	0.34	0.34	0.34
French Franc	6.5595-6.5615	6.5595	0.35-0.25c	0.34	0.34	0.34
Italian Lira	2.3360-2.3380	2.3360	0.35-0.25c	0.34	0.34	0.34
Spanish Peseta	166.6370-166.6390	166.6370	0.35-0.25c	0.34	0.34	0.34
Swiss Franc	2.0000-2.0020	2.0000	0.35-0.25c	0.34	0.34	0.34

Belgian rate is for convertible francs. Financial Times 72.85-72.85. Six-month forward dollar 1.55-1.50c pm. 12-month 1.70-1.55c pm.

DOLLAR SPOT-FORWARD AGAINST DOLLAR

	Days' spread	Close	One month	% change from 1984-85	% change from 1983-84	% change from 1982-83
U.S.	1.0535-1.0555	1.0550	0.51-0.47c	5.57	1.11-1.09pm	4.71
Canada	1.4780-1.4800	1.4780	0.45-0.37c	2.19	3.53	0.88-0.79pm
Deutsche Mark	3.3760-3.3780	3.3760	0.35-0.25c	0.34	0.34	0.34
French Franc	6.5595-6.5615	6.5595	0.35-0.25c	0.34	0.34	0.34
Italian Lira	2.3360-2.3380	2.3360	0.35-0.25c	0.34	0.34	0.34
Spanish Peseta	166.6370-166.6390	166.6370	0.35-0.25c	0.34	0.34	0.34
Swiss Franc	2.0000-2.0020	2.0000	0.35-0.25c	0.34	0.34	0.34

UK and Ireland are in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currencies. Belgium rate is for convertible francs. Financial Times 72.85-72.85.

OTHER CURRENCIES

Mar. 0	\$	\$	Note
Argentina Pesos	908.50-292.15	971.96-972.51	Austria 95.38
Argentine Dollar	1.6395-1.9365	1.4450-1.4450	Belgium 72.88
Brazil Cruzeiro	4.72-4.197	3.951-2.591	Denmark 128.82
Brazil Real	7.45-7.5010	7.0537-7.0550	France 1.01
Great G. Bahama	148.00-192.03	140.78-143.58	Germany 5.93
Hong Kong Dollar	8.2770-8.2670	7.8010-7.8030	Japan 2.23
Indian Rupee	153.07	95.57	Netherlands 1.00
Kuwait Dinar (KWD)	0.2265-0.2376	0.2765-0.2780	Norway 4.00
Livestock	72.55-72.85	58.50-69.00	Portugal 27.10
Malaysian Dollar	2.7530-2.7600	2.6970-2.6980	Spain 1.00
New Zealand Dollar	2.3300-2.3400	2.1705-2.2170	Sweden 1.00
Saudi Arab Rial	2.3300-2.3400	2.2770-2.2770	Switzerland 2.085
South Africa Rand	2.4150-2.4210	2.3770-2.3770	U.S. Dollars 1.00
5th African Rand	2.1600-3.1900	2.0470-2.0550	United States 1.00
U.A.E. Dirham	3.5020-3.5050	3.6780-3.6790	Yugoslavia 2.80

* Selling rates

FINANCIAL TIMES SURVEY

Austria

Music and easy charm are bywords for Austrian life. Since the war the country has added to that an enviable economic record. But now the system is finding it awkward to cope with the problems of the 1980s

Country in mid-life crisis

By W. L. LUETKENS

THE REPUBLIC of Austria will this year celebrate the 40th anniversary of its re-foundation after the war and the end of Nazi annexation. As a clever Viennese journalist has pointed out, the occasion coincides neatly with what can be best described as a mid-life crisis consisting of largely home-made problems.

Mid-life crises have a way of being tiresome. They signal a need for adjustments to be made, maybe even for expectations to be lowered, but they are not generally fatal. Once the adjustments are made, it is possible to go on living happily for almost ever after.

Such really is Austria's case. The political problems that have made headlines are largely parochial. The need for a rejuvenation of industry is not specifically Austrian. Austria has certain assets that could help to smooth the transition from outmoded to more up-to-date industrial structures. What has yet to be demonstrated is a willingness to employ those assets, which rest largely upon the established consensual system of industrial relations.

Even the suspicion that Nazi modes of thought still survive — a suspicion that was nourished when an ill-advised and luckless Minister of Defence, Dr. Friedhelm Frischenschlager, welcomed home a war criminal newly released from Italy — ought not to be taken to heart excessively. He acknowledged having made a mistake but some nationalist elements were delighted by what he had done. There is no more reason to believe that nationalist fringe are about to seize power in Austria than in, say, France or West Germany.

Dr. Fred Sinowatz, the Socialist Chancellor, points to the prosperity and social consensus that have been created in Austria since the war and contrasts them with the poverty and conflict of the post-World War One Republic, when native and German-style fascism were indeed strong. "We have mastered the problems of our country producing almost unparalleled social peace, almost unparalleled stability," Dr. Sinowatz says. "These are conditions under which fascism cannot take root in Austria."

His difficulty is that he needs the support of the small Free-

dom Party with support from 5 per cent or less of the electorate in order to marshal a parliamentary majority. The party consists of a liberal group which is represented in the cabinet, and a rather vocal section of somewhat ill defined "nationalists." This group stresses its German-ness, without necessarily wishing to join Austria to Germany, an idea entirely chimerical in today's Europe.

Wild men

The nationalists are xenophobic, at times anti-semitic. They are longer on rhetoric than on political thought. Occasionally they do more than talk. Signposts in the language of the Slovene minority have at times been defaced. In the past bombs occasionally went off, fairly harmlessly, in Italy to remind the world that until 1918 southern Tirol belonged to Austria.

In the aftermath of the Frischenschlager affair it was conclusively demonstrated that these wild men and their prime representative, Herr Joerg Haider, a 35-year-old rabble rouser, had no support at the

top of the party. But there is no guarantee that they will not at some time displace the liberals such as Dr. Norbert Steger, the Vice-Chancellor.

The coalition Government, therefore, is not necessarily the most efficient of political instruments, all the more so because Dr. Steger and Dr. Sinowatz do not see eye to eye on some key issues. The Chancellor would like to open up the Zwentendorf nuclear plant in order to reduce Austrian dependence upon imported energy, Dr. Steger does not agree.

Zwentendorf was completed in 1978 but never commissioned because a referendum enforced by "green" environmentalists went against nuclear energy. Public opinion has almost certainly changed and, across all the parties, there is a parliamentary majority for commissioning Zwentendorf.

But the Freedom Party is against, so a policy change would require an alliance between the pro-nuclear members of the Socialist Party and of the opposition, the People's Party.

The opposition is unwilling to save the Chancellor's bacon, however, partly because it is divided on a nuclear issue, partly because it hopes eventually to prise apart Dr. Sinowatz's coalition. Then the only alternative would be a coalition of People's Party and Socialists, such as ruled postwar Austria until 1966.

Behind this Alice-in-Wonderland situation there lies the fact that the Freedom Party cannot be fitted easily into the type of consensual system that has ruled in Austria since 1945, regardless of whether Socialists, People's Party, or a coalition of both were in power. In parallel with the dialogue between these two parties there has throughout the period been a dialogue between their power bases, the trade union federation and the chamber of commerce organisation, to which all enterprises must belong.

Key decisions have again and again been made in the formal and informal organs of social partnership which link the Federation and the chambers.

The Freedom Party, with its base among professional people and protest voters, does not fit into this framework. The environmentalist Greens are even more of a foreign body in the established system. They are not represented in the parliament, though if an election were to be held now they would probably get in and overtake the Freedom Party.

Cynical

The increasing power of the Greens, and of "green" sentiment in the two major parties, has added to the feeling that government is blocked on some key issues. Whereas the coalition has tackled, and in some cases settled important questions, it has looked helpless where energy policy is concerned. Not only Zwentendorf is in limbo: so is a hydro-electric plant planned at Hainburg on the Danube. Dr. Sinowatz called for a pause for reflection when environmentalists and police clashed at Hainburg. It is likely to be prolonged.

On a long-term view the arrival of the Greens and the Freedom Party as political forces of consequence means that the elite which has governed Austria since the war, and governed it well, may be losing its contact with the grass roots. The public at large often has been cynical about its leaders but while prosperity continued to grow their leadership was not seriously questioned. Now that affluence has been achieved, grumbles can turn into political rumbles.

Yet it would be wrong to declare social partnership to be dead or dying. In its very own field, that of industrial relations, it is very much alive. The Germans suffered a long strike when their metalworkers demanded a 35-hour week. In Austria the issue was settled diplomatically. Unions and employers agreed that shorter working hours might be helpful under certain circumstances but

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The Prince Bishop's gardens and fortress at Salzburg

Tony Kirk

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Austria 2

Coalition's credibility eroded by rows

Politics
PATRICK BLUM

IN LITTLE more than two months the coalition Government of Socialists and the small Freedom Party has managed to embroil itself in four major rows. Each seriously damaged the government's credibility and eroded support.

First was a parochial row about whether shops should be open on December 8, as is usual on Saturdays preceding Christmas. This year it happened to coincide with a religious holiday when shops are usually closed.

The Government, trade unions and church thought that shops should remain closed but the provincial governor of Salzburg defied the ban, arguing that shops could stay open. The Government threatened the governor with dismissal—a questionable constitutional move—and embarked on a court case against him. It presented its case so ineptly that the court could not make a ruling.

Clashes

Just before Christmas the Government was shaken by protests against its attempts to begin construction of a hydro-electric plant and dam in Hainburg, which conservationists argue would destroy the Anwald, one of Europe's last primeval forests.

Clashes between police and protesters and a big demonstration in Vienna forced an embarrassing retreat by the Government. It postponed indefinitely the project, which it had earlier argued was essential for Austria's energy needs.

That row had barely died before a more serious one erupted over the actions of Dr. Friedrich Frischenschlager, the Defence Minister, in greeting a war criminal and former Waffen SS officer on his return to Austria after release from an Italian jail. This was especially embarrassing for the Government, since it coincided with the meeting for the first time in Vienna of the World Jewish Congress and with ceremonies marking the liberation 40 years ago of the Auschwitz concentration camp and the Nazi defeat.

The coalition looked close to breaking up as Dr. Norbert

Steger, leader of the Freedom Party and vice-chancellor, threatened to resign if the Defence Minister—a fellow Freedom Party member—was sacked. In the event, Dr. Frischenschlager apologised, Chancellor Fred Sinowatz accepted and party discipline ensured government victory in a no-confidence vote tabled by the opposition People's Party. A question mark continues to hang over Dr. Frischenschlager's future, however.

Within weeks the Government was again in trouble with the sudden resignation of the Socialist Minister for Construction following allegations in the Press that he was guilty of financial misconduct. The whiff of scandal adds another worry for Dr. Sinowatz, whose own sincerity and integrity is generally recognised.

The Government has been thrown on the defensive, the coalition parties bicker among themselves and their supporters are disorientated. The coalition with the Freedom Party is seen by an increasing number of Socialists as a liability, while the Government's indecision on key issues such as what to do with the mothballed nuclear power plant at Zwentendorf or about Hainburg is perceived as a sign of weakness in the country at large.

The Freedom Party itself is deeply divided. Dr. Steger is desperately trying to steer the party in a liberal direction but a sizable membership, possibly the majority, appears to prefer the more right wing and nationalist approach of Herr Joerg Haider, the youthful and energetic leader of the Carinthia Party organisation.

Herr Haider has campaigned openly—and successfully in Carinthia at least—against his party chief and against the coalition with the Socialists. In the row over Dr. Frischenschlager he defended the minister's action, arguing that there was nothing to apologise about. He was severely reprimanded by a special meeting of the party, but in this does not appear to have seriously affected him.

The conflict between Herr Haider and Dr. Steger is by no means over. At stake is not only Dr. Steger's leadership but also the future of the coalition Government, not to say whether the nationalist right wing could capture control of the party.

The coalition, which was put together by former Chancellor Dr. Bruno Kreisky, has never found wholehearted support within the Socialist Party. The rows have strengthened the case of those, especially on the left, who would have preferred to go it alone in a minority government or move to opposition. That view is dismissed as unrealistic by Dr. Sinowatz. He also argues that the coalition has worked well and that Dr. Steger has always delivered his party's votes whenever the Government has run into trouble.

Others favour a grand coalition of Socialists with the People's Party of the type that ruled Austria from the end of the war until 1966. But even this option is seen as less attractive by many supporters. In the Socialist Party on the grounds that such a coalition would probably prove little better than the current one.

Placate

The People's Party, itself split into contending agricultural, industrial and white collar sections, has appeared at times as indecisive on key issues as the Government. Dr. Alois Kock, its leader, has found it difficult to present a distinct and clear alternative.

On Hainburg and Zwentendorf, for example, the party has looked both ways trying to placate its farming and environmentalist lobby while seeking to reassure its industrialists who are pressing for building more plants to provide jobs. Such ambiguity is damaging to the People's Party which cannot hope to win an absolute majority in an election in the foreseeable future.

Dr. Kock acknowledges this dilemma. He is playing a wait-and-see game, hoping that the Government will further disorientate its supporters and open the way for a grand coalition.

After the Government reshuffle in September, the Socialists had recovered some of the support lost in the previous year and they retain their lead in the opinion polls—but only just. It is not clear how the row over Dr. Frischenschlager and the Construction Minister's resignation will be reflected in the polls.

Paradoxically, the Freedom Party may temporarily benefit



Chancellor Fred Sinowatz (left) accepted an apology from Defence Minister Friedrich Frischenschlager, who created problems by meeting a war criminal.

Mid-life crisis

CONTINUED FROM PAGE 1

from sympathy for Dr. Frischenschlager, but this is unlikely to lead to a resurgence of the party, whose support had fallen to about 3 per cent in January.

None of the main parties are doing well in the polls and all are losing support to the "Greens", which explains why none is eager for elections.

The emergence of the "Greens" as a force in Austrian politics is the one factor that could upset all political calculations. A recent survey suggests that for every 10 Green votes, three come from the Socialists, two from the People's Party and one from the Freedom Party.

Their impact can be gauged by the surprising success of a combined list of conservative and left-wing Greens in provincial elections in Vorarlberg last October. They won 13 per cent of the vote and eclipsed the Freedom Party.

They have gained considerable public sympathy and public enthusiasm for Green issues has surged. They tend to benefit from a widespread disillusionment with the traditional parties, especially among the young.

Since neither of the main parties can hope to win an outright majority, the Greens may find themselves in the role of power brokers when another government is formed. The prospect is not relished by any of the other parties, least of all by the Freedom Party which stands to lose most and find itself out of government for a considerable time.

In the meantime, Dr. Sinowatz will seek to keep his coalition going as long as possible, although the Government's problems may force him to hold early elections rather than wait until 1987.

told the government to shelve ideas to bring in a 35-hour week by law. Hours, it was agreed, were a matter to be settled between labour and management—and there the matter rests.

This attitude of mutual consideration and respect has kept Austria almost free of strikes. It has kept wage claims reasonable, making a key contribution towards containing inflation. An inflation rate that has always been well below OECD averages and has kept well below 5 per cent are remarkable phenomena in present-day Europe and could not have been achieved without the unions' self-imposed moderation.

This reasonableness could help to create a good climate for industrial restructuring, always provided the sacrifices demanded of the unions are not too great. The unions have repeatedly obstructed, but never quite blocked, adjustments required in Austria's biggest industrial empire, the state-owned Oelag steel company, the biggest holding of which is the Voest-Alpine steel concern. They have insisted upon employment being preserved as far as possible, but not upon any particular job being preserved.

Oelag has been given state help of Sch 10,000 for a three-year period ending in nine months. Two-thirds of the money has been spent mainly to cover losses. With the improved cyclical economic prospects, the balance, and the additional sums that will have to be voted for the period beginning in 1986, may allow into a necessary transition to higher value products. The operative word there is "may."

A similar position exists in the industrial concern owned by Creditanstalt-Bankverein (a bank in turn owned as to 60 per cent by the Government). The concern has so far been kept afloat at considerable cost by the bank, with only limited government assistance. This year it is probable that the Government will provide several billion Schillings, even though the chairman of the bank, Dr. Hanses Androsch, hopes that the industrial holdings will break even, taken overall, for the first time in years.

Energy

Though much of privately owned Austrian industry, and especially the small and medium sized entrepreneurs, are in general much better off, the nursing back to health of Oelag and of the CA bank holdings will require a great deal of energy. Good management of the present upswing were to collapse, the Minister of Finance, Dr. Franz Vranitzky, would find it hard to produce the sums required without an explosion of the budget deficit.

The Socialist-Freedom Party coalition in its present state of health will have to summon all its energies to cope with this and the other challenges confronting it. Dr. Sinowatz intends to keep the coalition going if at all possible until the life of the present parliament expires in 1987. Though some of his own followers are becoming restive, supporters of his course argue that a coalition prove no more effective. Once the next election is out, the way things may look different.

W. L. Luetkens

PROFILE: FRANZ VRANITZKY, MINISTER OF FINANCE

Enjoying a fiery challenge

DR FRANZ VRANITZKY is a man who jumped from the frying pan into the fire and says he liked it.

In 1981 he was called in a hurry to salvage Oesterreichische Laenderbank when it ran into grave troubles because of non-performing loans. Three years later he was plucked from the bank to sort out the deficits plaguing the federal Austrian Budget. Which challenge did he enjoy more: bank chairman or Minister of Finance?

The minister, boyish-looking in spite of his 46 years, looks down at his present job, he says. It also seems to need hard work—or at least longer hours; his working day at the baroque palace in Vienna bousing the country can run as long as 13-14 hours.

The minister's section of the building once was the town house of Prince Eugene, commander of the Imperial armies in the late 17th and 18th centuries, and a corner of the Duke of Marlborough. Visitors are received in a huge salon with gilded furniture and scarlet curtains rising towards a high ceiling.

The minister's telephone with its battery of buttons seems out of place amid the pomp; but that does not quell its businesslike buzz.

Dr Vranitzky was born in 1937, so he was a boy when World War Two ended. He took a diploma in business management at the Vienna School of Economics and Business before doing a brief turn in the accounting department of an electrical concern in Vienna. From 1961 to 1970 he worked in the Austrian central bank.

After a few months in the finance ministry he joined the board of Creditanstalt-Bank-



Franz Vranitzky: will have to show his mettle in 1986 Budget.

verein, Austria's largest joint stock bank which, like Laenderbank, is 60 per cent government-owned.

His leap into international prominence occurred in 1981 when the Socialist government of the day put him in charge of Laenderbank and its reorganisation.

The bank was saved because the Government hailed it out in the interests of the domestic and international creditworthiness of Austria and its financial institutions. Though it will take many years before the situation is entirely restored, Laenderbank was back on an even keel by 1984.

That is when the call came to take over the finance ministry. Dr Vranitzky's predecessor, Dr. Herbert Salcher, had raised some taxes to stop the Budget deficit growing as share of gross domestic product, but growing

debt service and the burden of pensions for an ageing population threaten a further explosion next year and in 1987.

The current year's Budget is still largely Dr. Salcher's work. Dr Vranitzky will have to show his mettle in the Budget for 1986.

One of his most urgent tasks ought to be to encourage an improvement of the capital base of Austrian business. It will not be easy to find viable ways in a situation of fiscal stringency.

Tax increases are ruled out not only for political reasons but also because the Austrian tax quota is already rather high, so it will be hard work finding areas where expenditure can be cut. The task will be complicated by the financial needs of a deficit-ridden state-owned industrial empire.

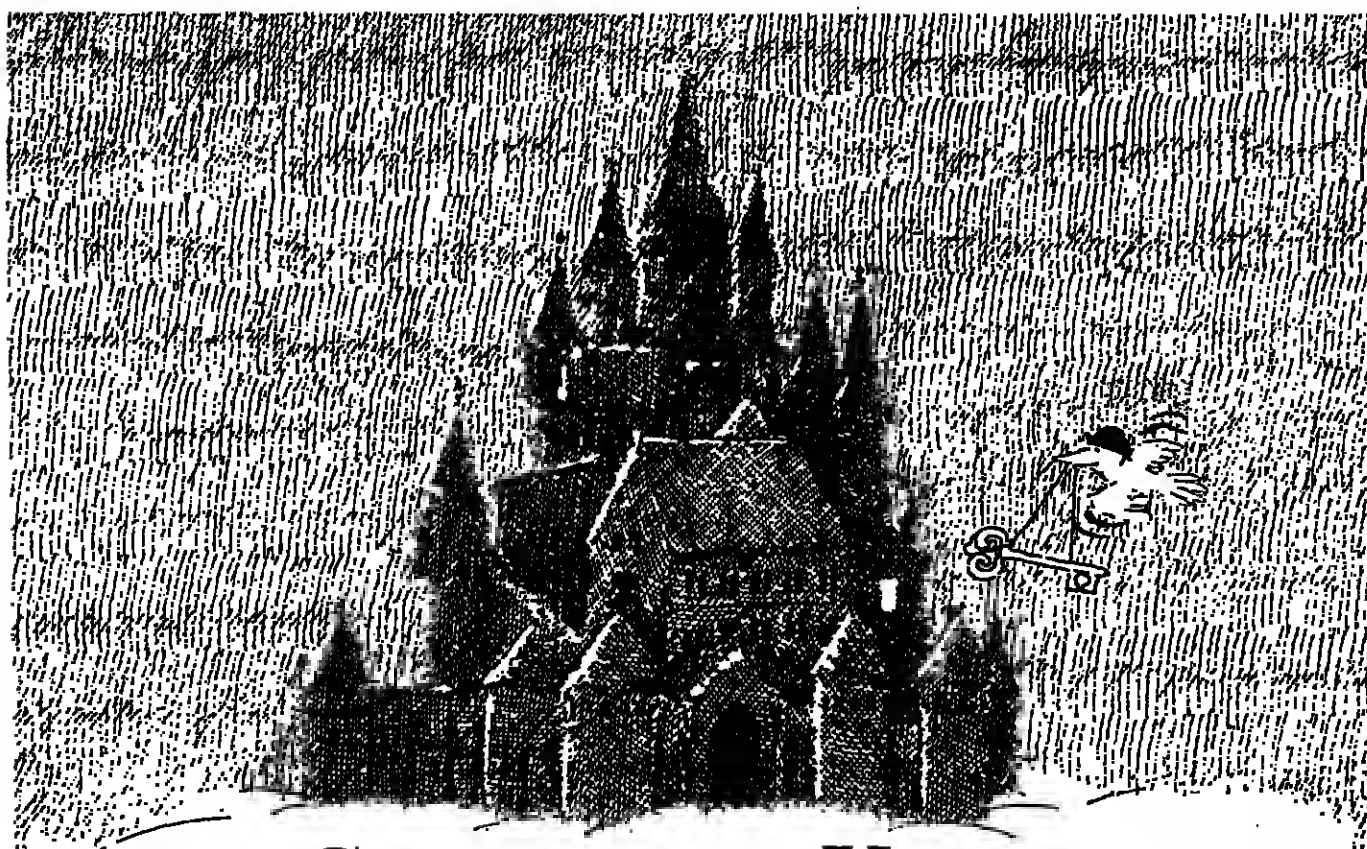
Though a socialist, Dr. Vranitzky takes a pragmatic view of the virtues or otherwise of governments owning industrial companies. But neither does he see any special virtues in private ownership in itself: he thinks the real criteria are efficiency and viability.

In any case, he is quick to point out that nationalisation occurred in Austria not for ideological reasons but to forestall seizure by Russian occupiers after the war.

The minister came to socialism through his family. Dr Vranitzky's father was a militant socialist who stuck to his beliefs when the Nazis took over in 1938.

Are his political interests such that he will stay in politics as a career? Dr. Vranitzky leaves the question without conclusive answers. He certainly would not rule out a return to the business world.

W. L. Luetkens

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Austria 3

Shadows over an idyllic scene

Economy
W. L. LUETIKENS

Recovery is here, say economists. Just look at the wood. As they quickly touch wood.

THE CABARET singer in a fashionable Vienna cellar theatre has pretty well got it right. The Austrian economy has taken a marked turn for the better: growth is accelerating, the inflation rate is coming down, budget deficits have been stabilised, and so has unemployment.

An almost idyllic scene, and another success for one of western Europe's most successful economies. But there are shadows, principally a deteriorating external current account and, above all, uncertainty whether recovery will prove to have been more than a flash in the pan.

Almost independently of who was in power, Austrian economic policy has for long been a peculiarly Austrian characteristic. Like the Germans and Swiss, Austria has attempted with considerable success to keep inflation at bay by pursuing a hard currency policy. The schilling is kept closely tied to the D-mark.

Deficit

But unlike the Swiss and Germans Austria has given priority to maintaining employment as full as possible. The average unemployment rate of 4.5 per cent in 1984, though much lower than that in Germany, is considered to be distressingly high in Vienna.

Budget deficits were long considered to be a satisfactory way of keeping up employment, and the theory seems to have worked, supported by a voluntary incomes policy under which the unions have always taken care to keep wage demands within reasonable limits.

But some years ago it became evident that budget deficits had reached an unsustainable level. Efforts to contain and subsequently reduce them have proved to be politically difficult to carry through. A more immediate warning has come from the current account, which has begun to go into deficit. A surplus of Sch 7.9bn (about \$330m) in 1982 was succeeded by a deficit of Sch 1.3bn in 1983. The

provisional figure for 1984 is a deficit of Sch 10.8bn, but revisions are expected to bring that down to about Sch 4bn. It is an amount that a creditor of Austria's standing can fill easily.

In the next economic downturn the deficit schedule, in any case, narrow. But the deficit is a warning signal, especially since it comes when Austrian merchandise exports are doing well.

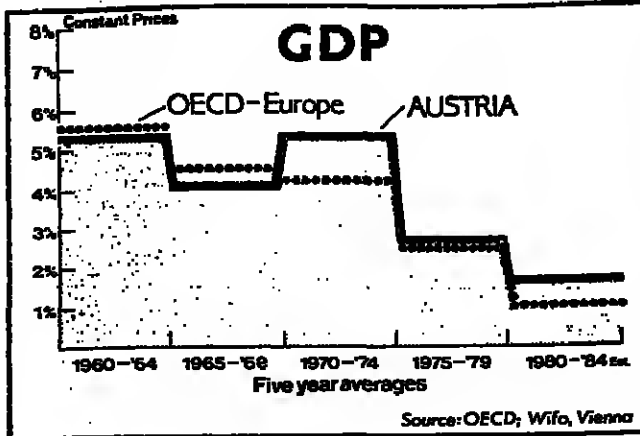
In 1984, the early phase of the upswing, export demand for Austrian basic goods such as steel and pulp increased steeply. This year demand for components, principally from Germany, may make the running. But exporters in Germany may still be insufficiently employed to bring that about.

On the other side of the ledger, rising real disposable incomes are likely to stoke up consumer demand in Austria this year, with the usual effect of increasing imports of consumer durables. That is a typical pattern, though it may just be modified this year because a forthcoming tightening of rules to control exhaust pollution may discourage motorists from buying new cars.

The worsening of the current account did not have a particularly striking effect on the exchange rate of the schilling. What did cause difficulties was an inflation rate about double that of West Germany in 1984. To counteract this, the National Bank has had to keep interest rates some 2 percentage points above those in Germany.

The current year should be easier. By January the inflation rate was down to 3.4 per cent over a 12-month period.

Forecasters at Wifo, a Vienna economic research institute, predict real growth of 3 per cent this year for the Austrian economy as a whole, improving on last year's 2.1 per cent. They also believe that since an awful result in 1983, investment intentions in industry have been



Performance and prospects

	1982	1983	1984*	1985*
	Change in per cent			
Gross investment	-6.8	-1.9	2.0	3.5
Consumer prices	5.4	3.3	5.7	4.0
	Schillings Bn			
Merchandise balance	-62.6	-68.5	-76.0	-79.9
Current balance	-12.2	-1.3	-4.5	-4.6
	Per cent			
Unemployment ratio	3.7	4.5	4.6	4.6
* Forecasts				
Gross domestic product	1.0	2.1	2.5	3.0
Source: Wifo, National Bank				

gun to come out of the cellar. This year, they believe, will be better than last, but even so the investment quota will remain below the long-term trend.

Good though the unemployment figures are, they may not be quite as good as they look. Dr Helmut Kramer, head of the Wifo Institute, argues that during the current period of economic expansion it has proved possible to stabilise but not to reduce the unemployment rate. So the danger exists that in the next downturn unemployment will climb to levels

above those seen in previous recessions.

In the case of the Budget, the pattern is not dissimilar. The net deficit (deficit less redemptions of government debt) as a percentage of gross domestic product, has been brought down by more than 1 percentage point to an estimated 4.4 per cent in 1985. But next year the net deficit would rise from Sch 62bn to Sch 75bn if policies remain unchanged.

Since significant tax increases are ruled out for political reasons, Dr Franz Wranitzky, Minister of Finance, is having all areas of expenditure examined for possible cuts. It is evident that he will have great difficulties finding econo-

Key budget figures

	Total expenditure	Net deficit	Net deficit as percentage of GDP
	Sch bn	Sch bn	
1979	288	33	2.6
1981	339	28	2.60
1982	408	66	5.4
1983*	437	62	4.80
1985*	463	60	4.37

* Estimates. † Deficit less debt redemption.

Source: Ministry of Finance, Vienna

Doubling-up for flexibility

Telecoms
PATRICK BLUM

THE FIRST stage in the Austrian postal and telegraph administration's (PTT) ambitious telecommunications modernisation programme will be complete in the next few months, when the first two fully electronic digital telephone exchanges are handed over to the state utility.

The two exchanges are now being installed in Vienna to provide 10,000 lines each. Subscribers will be connected by next January. The full programme will cost several billion schillings and last for 20-25 years by which time the whole of the telephone network in Austria should be entirely digital.

The programme also includes initial development of an integrated Services Digital Network (ISDN) to allow the transmission of data, text and pictures as well as voice under the same subscriber number. The first field trials for the ISDN are scheduled for 1988 with procurement expected to start

within about two years after that.

The work is being done by two competing groups of companies brought together in unusual co-operation by the PTT. The first group working from licences from Siemens Munich unites Siemens Austria and ITT Austria in what is a unique co-operation between the two companies on a project of this scale.

The second group made up of Kapsch and Schrack, two small Austrian companies, is developing a system made under licence from Northern Telecom of Canada. These two companies have now formed a joint company, Austrian Telecommunications GmbH, to pool their development efforts and market jointly developed systems.

The idea of having two systems is to give the PTT more long-term flexibility. Both groups work from the same specifications set out by the PTT. Contracts are awarded individually to each group for specific equipment and, in theory at least, on a competitive basis.

The Austrian authorities want to maintain competition between the companies to avoid reliance on any one system in

the future. But this also gives the four businesses, which have to carry the initial burden of development costs, some measure of security.

The Austrian approach is unique in several ways. Rather than seek to develop a purely indigenous system or simply buy ready-made telephone exchanges, the Austrian PTT has sought a middle way involving domestic development and production in co-operation with foreign businesses. All the work will be carried out by the four groups in Austria with the help of licences and technology from abroad. Adaptation of the technology to meet Austrian requirements is undertaken by the Austrian-based companies.

To ensure maximum results the PTT set up a special telecommunications development company (OPEC) to co-ordinate and supervise the project. The PTT owns just under 51 per cent of the company and the rest is equally divided between the four companies.

OPEC is useful in other ways too. Dr Guido Klestil, deputy chairman of ITT Austria, says that it is "a great advantage for the PTT because they can find out a lot about what goes on through OPEC."

The financial advantage for the PTT is that under the OPEC agreement the companies, and not the PTT, share all development costs. Dr Ubleis concedes that these initial costs will be incorporated into prices, but the PTT is spared the risks involved in research and development.

These have cost each group of companies about Sch 350m since 1982 and will rise a good deal more before the end of the project. The companies received the first rewards for their efforts about a month ago when the contracts for the two Vienna exchanges worth Sch 150-180m each were awarded one to each group.

Other contracts are pending. They include two for another two exchanges in Vienna planned for delivery in 1986 and another two for an exchange in Graz and one in Linz to be installed in 1987. These are expected to be similar to the first two and contracts will almost certainly be made with the two groups of companies sharing out the work equally.

The groups also hope that the technology developed specifically for the project, especially the software, will open up export markets. For the two small Austrian companies the collaboration with Northern Telecom provides them with unique opportunities. "We are very satisfied with our agreement with Northern Telecom. We are able to draw on their extensive experience in this field, especially in the software area," Herr Sven Stengl, Schrack vice-president says.

mies sufficient to prevent another deficit explosion.

Such an explosion, if it were to occur, would tend to build inflationary pressures and cause difficulties for the hard currency policy. That in turn, could aggravate the threat of a rising inflation rate.

If that were to happen even greater demands would be made upon the sense of responsibility of the Austrian trade unions. Their willingness to pursue moderate wage policies is a central part of the concept of "social partnership" between labour and employers — something no longer unchallenged as to its heyday.

The case against social partnership in purely economic terms is that the *quid pro quo* for wage restraint is a heightened security of employment and hence a labour market rigidity that militates against the modernisation of industrial structures. It is an argument that has frequently been discussed in Austria where the larger, generally state-owned industrial units often are devoted to low value-added products.

Some evidence exists that a process of restructuring is under way. High-tech exports — defined as computers and components, medical equipment and measuring apparatus — have begun to keep pace with similar imports. Exports of car components cover 10 per cent of cars by some 50 per cent. That may not be exactly high-tech but imported cars have been one of the heaviest burdens on the Austrian trade balance.

At least one facility for making chips has been started up and more are on the way. It is not possible to say whether these are straws in the wind indicating that restructuring has begun and will be continued. Dr Kramer at Wifo recalls that an earlier debate about structural inadequacies was conducted in Austria in the mid-1960s.

"None of us foresaw the great upswing of 1968-74," he says.

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PROFILE: I.D.C.

Guide through grants maze

A MULTITUDE of investment incentives are available in Austria, where state intervention in the economy is common place. The potential foreign investor is likely to find the Industrial Co-operation and Development Agency (ICD) a useful guide through the maze of grants and other assistance available. Established about three years ago as a regional body to promote job creation in unemployment back spots, ICD has become the foremost agency to encourage foreign investment in Austria. It has had some successes, but these are modest so far since the agency was only given greater scope and resources for its work in the past year. The agency is funded by the Austrian Government and its services are free.

Herr Robert Karl, ICD director explains: "The current resources available to ICD have existed only for about a year. Previously the whole work was done by three people in a small office."

The company now employs some 17 people in its smart Vienna office near the opera house. It also has representatives in the U.S. and Japan, the two main target areas in the search for investors. The UK and Scandinavia also figure prominently among target countries.

ICD's efforts are concentrated on attracting firms in electronics, machinery and the manufacture of car components. Its budget and resources remain small by comparison with similar agencies in other countries. The Irish development agency, for example, employs 70 people in the U.S. alone compared with ICD's four, Herr Karl says. In 1984 its agency budget was a modest Sch 41m (\$17m).

ICD's role is to show that there is more to Austria than skiing, beautiful mountains and opera. It is an image problem, Austria has a lot to offer investors but this is generally unknown, Herr Karl says.

"We try to make sure that companies which want to come to Europe at least consider Austria before making any decision."

Foreign companies usually look for a country with a big domestic market, easy access to the rest of the European Community, and in many cases where English is widely spoken. Often Austria is not even considered, Herr Karl says.

Yet Austria enjoys duty-free entry to the EEC, he says. There is an efficient and skilled labour force and relations are trouble-free.

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Interest rate limits put on the brakes



Gerhard Wagner: new chairman of Oesterreichische Laenderbank.

Banking and Finance

W. L. LUETKENS

CREDIT institutions in Austria are struggling with the effects of an exuberant wave of deregulation in the late 1970s which greatly diminished their profitability and capital adequacy ratios.

Deregulation in a generally expansionary climate made them grow fast and turned the bigger among them into players on the international scene of greater weight than their domestic market would make one expect. It also caused the scramble for market share and volume increases to take precedence over profitability.

By the established standards, however, 1984 proved a mere than fair banking year, and although 1985 should be as good or better, the authorities and the industry itself decided to put on the brakes. They have chosen the traditional Austrian way out by forming what in all but name, is a cartel.

By an agreement within the industry maximum and minimum rates of interest have been set on the liabilities and assets side respectively. They are geared to the rate prevailing in lending to the Government — a rate which is market-related.

Further steps are planned. Legislation is expected this year to tighten the rules governing capital adequacy. And the foundation of new branches — which has already been slowed down by the dictates of cost accounting — is to be further controlled by tacit or overt understandings.

Dr Gerhard Wagner, chairman of Oesterreichische Laenderbank, the third largest bank in the country, sees the agreement as a last chance for the banks to return by their own efforts to classic principles of adequate profitability and adequate capital ratios. Without it the authorities might have intervened.

The fact of the matter is that, though they may not have intervened in a formal sense, both Dr Stefan Koren, President of the Austrian National Bank, and Dr Franz Vranitzky, Minister of Finance, pleaded strongly for the interest cartel and have agreed to reform rules governing capital ratios.

This reform is likely to tighten rules governing the admissibility of subordinate capital such as redeemable surrogates equity in calculating capital adequacy. The decline of capital adequacy in the Austrian system can be clearly traced in rows of figures provided by a study made by Professor Jack Revell of the Institute of European Finance at Bangor for the Organisation for Economic Co-operation and Development (OECD).

He found that among the Austrian joint stock banks share capital and reserves declined from 2.64 per cent of total assets to 2.21 per cent in 1982. Among the savings banks (with aggregate assets of Sch 700bn or about \$29bn against Sch 1,000bn for the joint stock banks) the ratio declined from 3.99 per cent in 1979 to 3.57 per cent in 1982. The process has continued.

International comparisons of capital adequacy are always difficult to make because both circumstances and definitions differ. But it is worth noting that the ratios for the West German joint stock banks, with a largely similar system, are roughly twice as good.

On the other side of the argument it may be said that because Austria has a mixed

economy with a great deal of state intervention, less than 41 per cent of the banks' credit volume is covered by Austrian state guarantees of one kind or another and hence constitutes an area of reduced risk.

Since 1977, when Austrian banks were relieved of the need to demonstrate the need for new branches to the finance ministry before being allowed to open them, the number of bank outlets in the country has soared. In 1977 there was one outlet for every 1988 inhabitants; now there is one for every 1438, approaching the degree of saturation reached in Switzerland and Germany.

Dr Guido Schmidt-Chiari, a member of the board of Creditanstalt-Bankverein (CA), the biggest Austrian bank, says that the country is over-banked. Profitability, he adds, is completely unsatisfactory.

The reasons for the neglect of profitability in favour of volume are to be found in Austrian history. In the 1950s and 1960s the steady expansion of the economy brought about almost automatic increases of the banks' business volume.

At the same time regulation and the traditional reserved areas of each sector of the industry caused interest margins to remain steadily around three percentage points. Profits therefore moved in step with volume. That system broke down in the 1970s.

Reform

Potential growth of the economy declined. Interest cartels became ineffective or were abolished. Joint stock banks no longer concentrated chiefly on industrial borrowers and affluent depositors but competed for the custom of small business and of consumers. Local savings banks increasingly competed for commercial credit instead of lending chiefly to municipalities and on mortgage.

The Raiffeisen rural credit unions moved into the towns. Finally the Bank Act of 1979 and a subsequent reform of the Savings Bank Act legalised the free-for-all. All credit institutions of any size were authorised to compete for every kind of banking business.

In addition to these strains high interest rates and the lessened growth of real personal and corporate incomes caused bank customers to become more interest sensitive. A complete change of mentality became required to break away from the traditional primary given to volume and market share. It is said that in some cases customers could make a turn by discounting bills and placing the proceeds on term deposit with one and the same bank.

A further complication arose when after years of discussion the Government introduced a flat rate tax of 7.5 per cent on bank interest and the yield of fixed interest securities. The purpose was to tax the proceeds of money deposited, perfectly legally, in anonymous accounts and never declared for tax.

The success of the measure is doubtful: the rate of 7.5 per cent (let alone of the 5 per cent in force from this year) was not enough to flush out these monies. But the side effects have been considerable.

Corporate treasurers have bypassed the tax by developing the so-called industrial clearing system by which they lend surplus liquidity to each other, bypassing the banks. The estimated volume of Sch 150m-Sch 250m is quite large by the standards of a small country and has cost the banks income.

Another side effect of the interest tax has been to move foreign rather than Austrian funds. This was a main reason why the volume of new fixed interest issues declined from Sch 70bn in 1983 to Sch 34bn last year.

Scramble

These various pressures explain both the interest cartel arrangements and the increased tendency of the bigger Austrian credit institutions to expand both their foreign and their non-interest business. Laenderbank intends to open a branch in London at the end of March. CA and Girgentrale are already established there.

The scramble for foreign business did at one time lead to an uncomfortably quick increase of the exposure to eastern Europe of Austrian credit institutions. That growth has slowed down greatly. By 1984 total exposure had climbed to Sch 140bn. Poland, once a source of especial concern, had actually reduced its debt to Sch 22bn. By contrast, claims on Latin America only amounted to Sch 18bn in mid-1984.

Girgentrale (GZ), the second-largest Austrian joint stock bank which belongs to the savings banks, has been especially active in seeking non-bank financial business. It has active affiliates in the leasing and consultancy fields and has built a luxury hotel to open in Vienna this summer. Equity participation in this venture is being offered to the public. GZ also co-managed 76 Euromarket issues in 1984 — more than any other Austrian bank.

Such activities can offer some compensation for the relatively moderate credit demand of last year which should increase modestly this year under the influence of rising investment intentions in industry. But the consensus in Vienna is that a lasting return to profitability in the core business of banking is essential.

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Austria 5

Clashes lead to policy retreat

Energy
PATRICK BLUM

CAN ANY Austrian government implement a coherent energy policy? The answer would appear to be no. Faced with a powerful environmentalist opposition which cuts across all parties, the coalition Government has found most endeavours to develop a global energy policy blocked or delayed.

The future of several big projects is uncertain, including the hydro-electric power plant and dam at Hainburg, an almost-complete coal-fired plant at Durnrohr, a planned pump-storage plant at Dorferetal and the completed but as yet unused nuclear plant at Zwentendorf.

The Government's long-awaited new energy policy published last November, designed to provide the framework for future energy developments, has become a dead letter within months.

Clashes between the police and protesters at Hainburg caused a government crisis, forcing an embarrassing retreat. The project has been indefinitely postponed.

Environmental objections have caused delays in completing the construction of the Durnrohr plant near Zwentendorf, originally to be put in operation this year, but now held up to meet demands for stringent pollution controls. It will not be commissioned until at least 1988.

Work on the Dorferetal plant in the Tirol cannot begin until the buildings can satisfy environmentalists that natural waterfalls will not be destroyed. Finally, hopes that the Zwentendorf plant mothballed since 1978, will be put to use appear increasingly remote although a majority in parliament and in the country may favour using it. For constitutional reasons, it has not been possible for the Government to reopen the issue.

Imports

The long-term implications are serious enough but in spite of warnings from the International Energy Agency and the OECD, Austria looks set to increase further its dependence on Eastern Europe, primarily the Soviet Union, to satisfy energy needs.

Dr Siegfried Rief, of the Federal Business Chamber, says: "It seems impossible to build power plants, and frankly I don't know what we shall do in a few years."

Last year imports rose, production declined and consumption of most forms of energy increased. Energy imports for the first 19 months of 1984 increased by 17 per cent to 564.7 petajoules, almost as much as imports for the whole of 1983.

Austria's energy import bill for the whole of last year went up by 23.2 per cent to Sch 59.2bn (\$2.6bn), making a considerable contribution to the current account deficit. In the first 10 months of 1984, coal imports were up 21.9 per cent, natural gas 68.1 per cent, oil and oil products 6.6 per cent and electricity 25.9 per cent.

The steep rise in electricity imports was accompanied by a fall of 15.2 per cent in exports. This left Austria a net importer of electricity but the difference between imports and exports is narrowing. Austria has to import to make up for low capacity from hydro-



Demonstrators camping near Hainburg in December forced the hydro-electric project to be shelved

Energy consumption and imports

(Peta Joules)	1979	1980	1983*	1984
Total consumption	1,063.7	1,066.6	924.3	726.8
Imports	714.3	718.5	580.9	564.7
Import ratio (%)	71.2	71.8	62.8	77.7

* Fall in imports and import ratio due in large part to considerable use of stocks

Source: Wifo, National Bank

Energy imports 1984

	Sch bn	% change with 1983
Czechoslovakia	3.2	+ 2.4
East Germany	0.5	- 33.8
Poland	3.3	+ 46.9
Hungary	3.3	+ 65.1
Soviet Union	16.3	+ 31.7
TOTAL	27.4	+ 28.7
Opec	17.8	+ 42.6
Others	14	- 1.9
TOTAL (All)	59.2	+ 23.2

electric power in the winter, but generally surpluses available in the summer more than make up for that.

In the first 10 months of 1984, energy imports from Eastern Europe accounted for 42.3 per cent of total energy needs (compared with 32.6 per cent of the previous year). Of this, coal imports accounted for 32.6 per cent of imports of oil and oil products for 27.5 per cent, natural gas for 85.6 per cent and electricity for 6.7 per cent.

In all these except oil, which remained stable, the share of East European imports was higher than for the whole of the previous year.

Dr Jan Stankovsky, of the WIFO Institute for Economic Research in Vienna, says the increase is misleading because it can be attributed partly to additional purchases for replenishing stocks. Coal imports from Poland rose to build advance stocks for the Durnrohr power plant. Austria also took advantage of a Soviet offer of natural gas at a cheap rate to build its gas reserves.

But he concedes that Austria is tending to increase its dependence on East European supplies. This is mostly due to a change in the structure of energy consumption towards greater use of gas.

"This is sensible. Gas is cheaper environmentally, cleaner and less objectionable," Dr Stankovsky says.

The problem is that the Soviet Union is the only country from which gas imports are viable. Importing gas from the Netherlands is too expensive, he says.

Austria's response to IEA or OECD suggestions to diversify sources of energy and develop additional domestic resources has been lukewarm. "Maybe efforts have not been very strong in this respect, but we

don't really have any alternatives," Dr Stankovsky says.

One alternative would be to develop nuclear power, but this faces strong opposition. Austria's single nuclear power plant, at Zwentendorf, was completed in 1978 but has never been used because a national referendum decided against commissioning it. The plant has cost about Sch 10bn (\$435m) to build, fuel and then preserve.

The Government is split over the issue. The Socialists would like to give it the go-ahead but their minority Freedom Party coalition partners have always been opposed. In theory, a decision whether to use the plant or scrap it is supposed to be taken by March 31, but most people are pessimistic.

"It would take a miracle to save Zwentendorf," Dr Stankovsky says.

That view is shared by the federal business chamber: "There will be no decision by March 31 and probably they will say that it should remain under conservation," Dr Rief says.

Uncertainty

Similar uncertainty surrounds the Hainburg plant. The Government has said that the plant, which was to provide up to 7 per cent of Austria's electricity, was necessary to meet energy needs. After the row over the plant's construction, the Government commissioned a study of alternatives. These could include a different site, a different type of plant, or even two smaller plants.

"The problem is that there are not many different places where you can build this plant," Dr Rief says.

Others suggest that the study is a face-saving exercise and

that no decision will be taken before the general election due in 1987.

So Austria will have to rely increasingly on its neighbours to meet energy needs. This is not without dangers. The exceptionally cold winter has made Austria's dependence more apparent, with supplies from Eastern Europe and the Soviet Union disrupted.

The Soviet Union stopped oil deliveries to most European countries, including Austria. In January gas deliveries were temporarily halted because of technical problems with the pipeline caused by the cold. Electricity supplies from Eastern Europe have been disrupted as East European countries struggle with their own energy crisis.

"Poland, Czechoslovakia and the Soviet Union could not supply us because of their own problems," Dr Rief says.

While Austria has avoided electricity shortages, this has been achieved only by increasing imports from Switzerland and West Germany, where the full production of a power plant in Bavaria was made available to Austria. Ironically, both Switzerland and West Germany were able to provide Austria with additional supplies from their own nuclear reactors.

"In the meantime, we have a monument here (Zwentendorf) that does not produce anything," Dr Rief says.

Prices are also affected. Austrian electricity prices are among the highest in Western Europe, which is bad for industry as well as the private consumer, Dr Rief says.

"In the end, you have to pay for power plants that you do not use," he says. That is a dilemma which Austrians will have to face for a considerable time.

PROFILE: METALLWERK PLANSEE

Fitting snugly in a metal niche

SIZE can be crucial to a company's success. Metallwerk Plansee, a world leader in powder metallurgy, made a virtue of necessity recognising that its size was an asset.

"We have a niche in the market for refractory metals. This field is too expensive for small companies but too narrow for big companies," Dr Rudolf Machenschalk, Plansee's chief executive, says.

But size alone, or even careful marketing, cannot wholly account for the company's success. This rests primarily on its efforts to research and develop new metals for some of the most advanced industries.

Powder metallurgy involves compressing metal powders into shapes subjected to intense heat, producing objects from metals of great strength and durability such as tungsten, molybdenum and tantalum. These are used in electronics, the car industry, high temperature furnaces and nuclear reactors.

The demand for powder metallurgy is growing, which at Plansee accounts for 6 to 7 per cent of annual sales value—more than twice the Austrian average.

Plansee, based at Rentte in the heart of a Tyrolean valley near Innsbruck, is one of Austria's most successful private companies. Founded by Prof Paul Schwarzkopf in 1921, it is still owned by members of the Schwarzkopf family.

But the company's achievements belie its image as a family business in a picturesque setting. Customers include NASA, the U.S. space agency, and the European Space Agency.

Plansee employs about 2,500 people, 1,650 of whom are in the two main Rentte units. It also has three plants in West Germany and another at Linz, upper Austria, jointly owned with Voest-Alpine, the state steel and engineering group.

The link with Voest was intended to avoid possible competition from that quarter. "We don't like to go to bed with state-owned companies," Dr Machenschalk says.

The Plansee group's turnover for 1984-85 was about Sch 2.5bn (\$112m). Rentte accounted for Sch 1.9bn, up 14 per cent on the Sch 1.6bn of the previous year. Profits and allocations for provisions and depreciation were about 15 per cent of turnover.

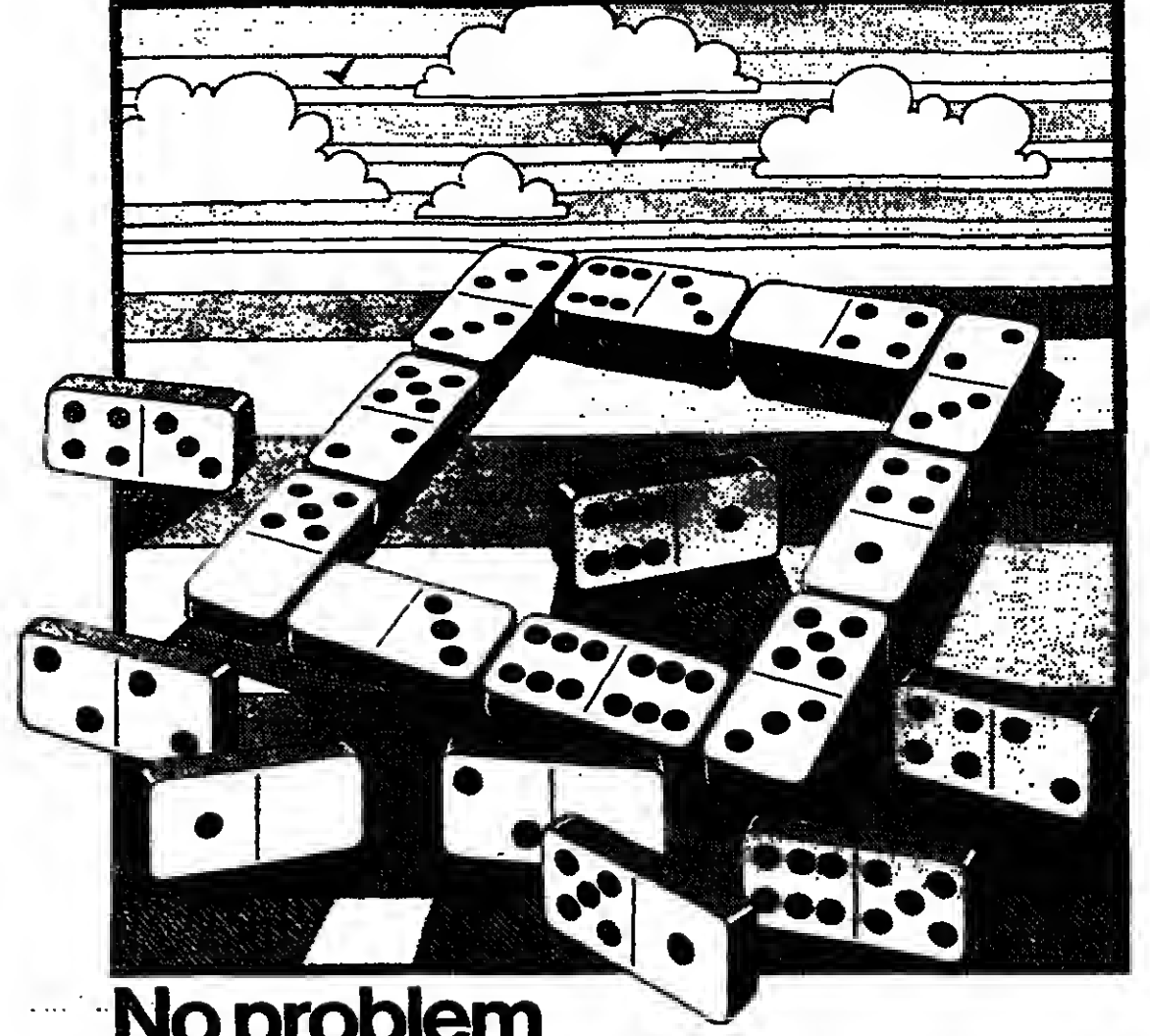
More than 90 per cent of production is exported, mainly to West Germany, the U.S. and Japan. The last two have grown by more than a third in three years. Some 11 per cent of sales go to eastern Europe and the Soviet Union, but the company dismisses complaints made in the U.S. press that it has sold technology to the eastern bloc.

The company sees its future in three areas. The first is improving and developing new processes in its technology for coating metals to give them extra strength—a field in which it claims European supremacy. The others are further research into substitutes for existing strategic materials and in developing specialised divisions to offer a tailor-made service for customer problems.

Patrick Blum

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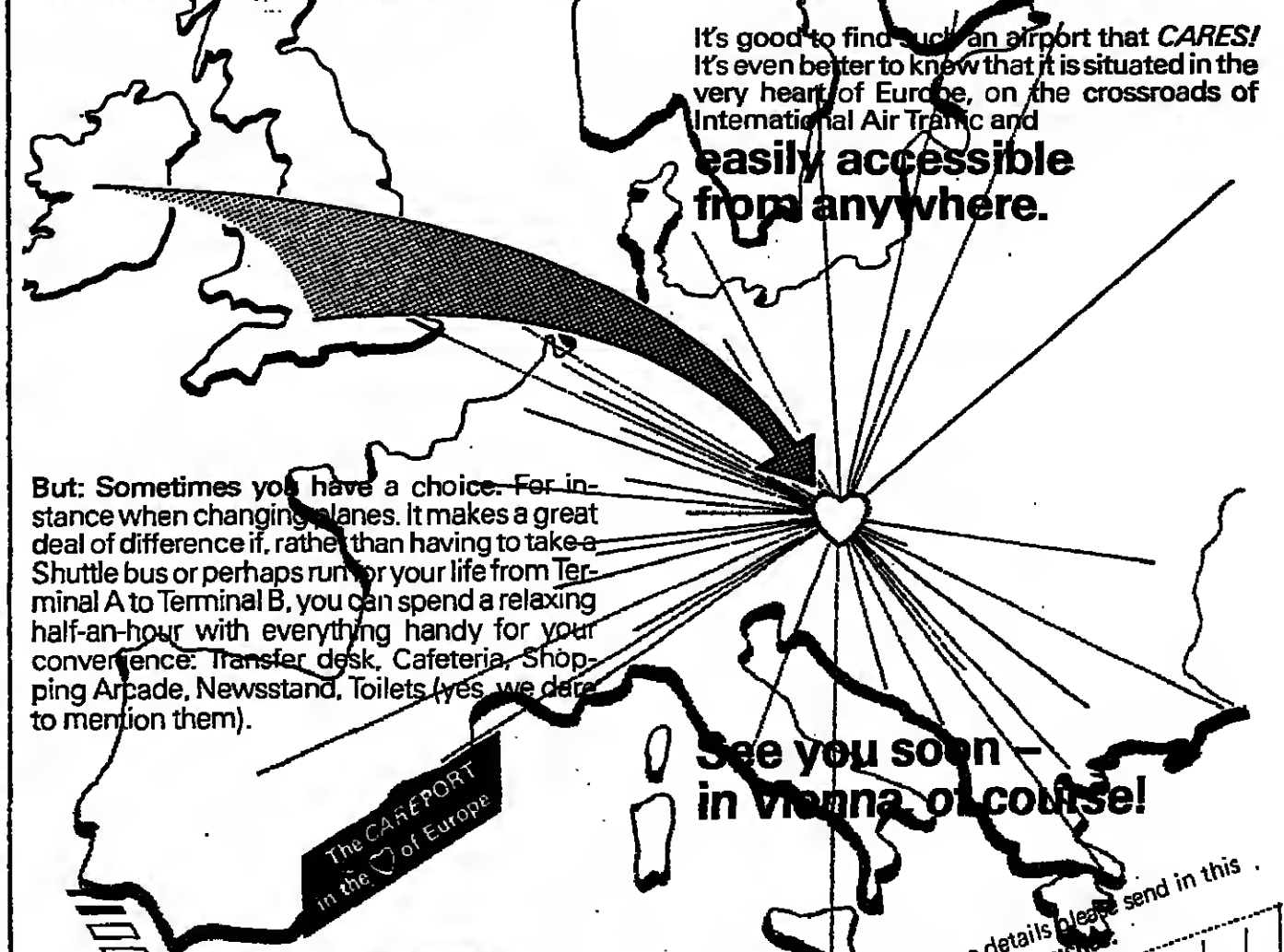
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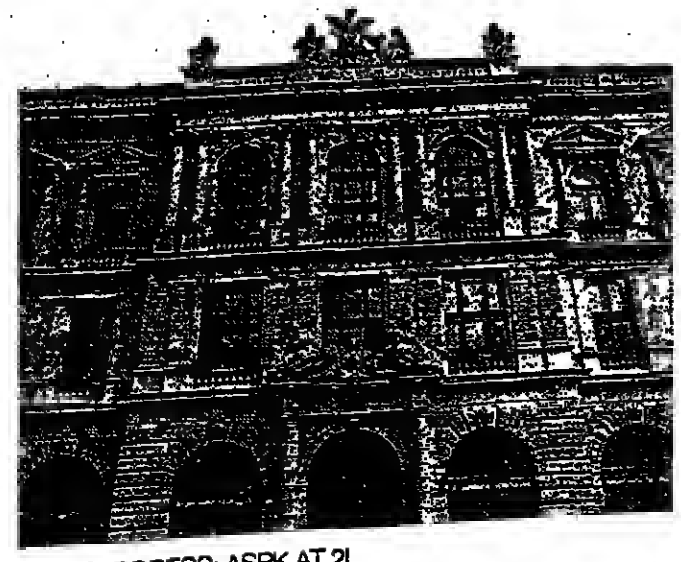
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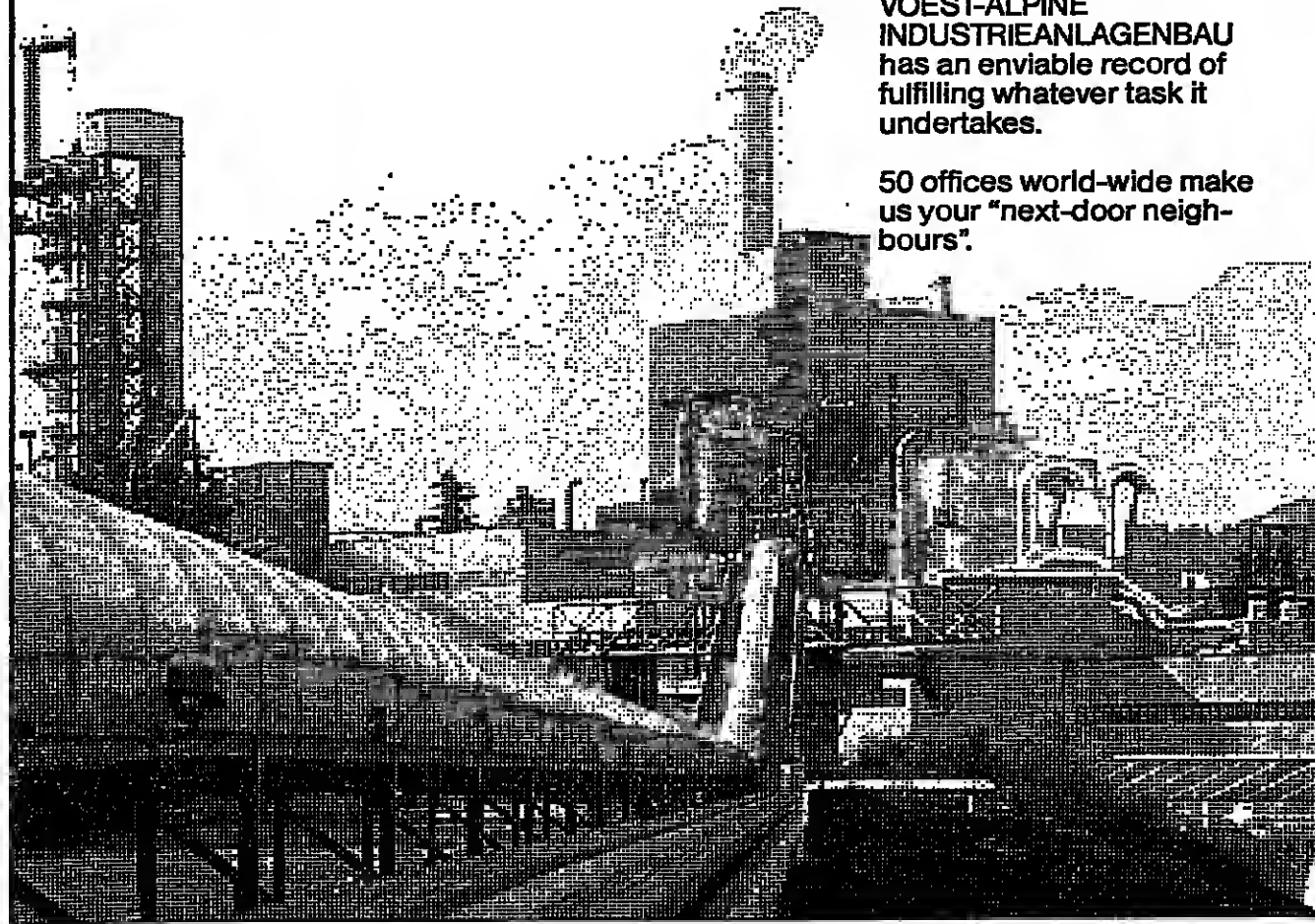
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Austria 6

Concern over seasonal slides

Tourism
W. L. LUTKENS

WITHOUT its tourist industry, Austria would be broke. The National Bank estimates that revenue from foreign tourists came to about Sch 50bn (\$3.85bn) last year against revenue of Sch 45bn from merchandise exports.

But whereas the balance of merchandise trade produced a deficit of Sch 78bn, tourist traffic—after deducting expenditures by Austrians abroad—produced a surplus of more than Sch 40bn.

In no other industrialised country does the importance of tourist spending rival that in Austria. It is the equivalent of about 8 per cent of gross domestic product. That share has been decreasing, but only very gradually, perhaps by 1 percentage point in a decade.

Far more is at stake than the well-being of 23,000 businesses directly involved in the tourist trade. Herr Egon Smeral, of the Wifo economic research institute in Vienna, says only about half tourist spending is on hotel and restaurant bills.

Between a quarter and a fifth goes on purchases that tourists take home. That represents about Sch 20bn a year paid for clothes, sports equipment, souvenirs and the like that only very partially figures in official trade statistics.

More important, in many rural areas the tourist boom of the past two to three decades has proved a classic economic pump-primer. As hotels were built or modernised, pensions started and farm houses expanded to provide accommodation, local tradesmen filled their order books with construction work. Shopkeepers also expanded sales and facilities in spite of the seasonal pattern of tourist trade.

Since agriculture was being rationalised, requiring fewer workers, many Alpine valleys were saved from depopulation by the bonanza.

A price has had to be paid, however. Many wooded hillsides are scarred to make room for ski lifts and pistes, while new buildings in villages often sit ill with picturesque traditional architecture.

But those who go to Austria can escape the turbulence of modern mass tourism. A skier in distance from the village centres, main roads and ski lifts, time seems to have stood still.

Secondary benefits from the tourist industry extend beyond the export sales. The country's position as a centre of winter sports has helped it gain a share of about 40 per cent of the world ski market.



The tourist bonanza

	Winter half 1984/85 (m)	Summer half 1984 (m)
Total overnight stays	44.4	68.5
Foreign visitors	33.0	53.0
Including:		
West Germany	21.8	35.2
Netherlands	4.2	5.0
Britain	1.5	2.8
U.S.	0.5	1.6
Foreign exchange income	Sch 42.6bn	Sch 55.0bn

Source: Wifo, National Bank

This industry, firmly based upon the innovative type of small entrepreneur common in Austria, has an export share of about 85 per cent.

When the Austrian ski team performed poorly in the last winter Olympics and the Austrian press and radio were full of laments, a representative of the chamber of commerce blithely asked what the breast-beating was all about. After all, the American winner of the slalom had used Austrian skis.

Skis are not the whole of the story. A Sch 4.5bn industry turns out winter sports equipment of all kinds. The Austrian ski industry manufactures 20 per cent of its business with foreign tourists. And would Austrian lodges and other fashions do as well abroad if foreign visitors had about signs that the industry may have peaked, with a gentle decline of tourist spending as a portion of GDP.

Nonetheless, Herr Smeral expects real income from tourists to continue to rise during the rest of the century. Austria will, however, lose market share as tourist countries outside Europe come to the fore.

He attributes this loss largely to the fact that the overwhelming majority of Austria's visitors come from West Germany and other countries of north-western Europe. These are regions with mature industries and relatively modest economic growth.

Seasonal patterns make it difficult for the tourist trade to achieve a proper return. Traditionally, visitors come in winter to ski and in summer to swim, sail and go on mountain tours. In spring and summer there is nothing much happening.

The occupancy rate of tourist accommodation is correspondingly low. In 1984 it was 27 per cent, though that is distorted by the 17 per cent occupancy rate in private bed-and-breakfast, often run for pin money.

The rate in four and five-star hotels was as high as 40 per cent, and in the cities, especially Vienna, it was even higher. The impact of seasonal

irregularities, especially on smaller accommodation, is generally cushioned by the social security system. The cook or maid laid off at the end of the season falls back upon unemployment benefit.

One could look upon that as a form of indirect subsidy. Another viewpoint is that by giving these people work during at least part of the year, seasonal employers are relieving demands on the unemployment fund.

Herr Smeral believes that the industry will have to go further upmarket to increase its market share and overcome limits imposed by the smallness of the country. One winter resort has already put up lift charges in an attempt to discourage less affluent customers. The summer resorts, Herr Smeral believes, will increasingly have to provide distractions such as shows, courses, and whatever that looks promising.

Vienna has its state-owned theatres and its opera, which are chronically unable to satisfy demand for tickets. Why not dispatch actors who are resting (but paid, provided they belong to the state companies) to pep up theatrical life in the provinces?

These considerations apply mainly to the summer and the dead seasons in summer and spring. Where Alpine skiing is concerned, Austria need not fear competitors. Conditions in the eastern Alps permit skiing at much lower levels than in the west so the visitors never need lose contact with the local inhabitants.

That fits well with the friendly image that the tourist industry is trying to promote. The basis exists in the form of a people accustomed to value courtesy, even though Austria, like other countries, also has its rough diamonds.

PROFILE: LENZ MOSER

Winter dries up wine lake

THE GOOD and bad news for Austria wine growers this year is that the harsh winter has destroyed a significant number of vineyards. Yields this year will be poor—but world stocks will therefore find buyers. According to Herr Lauritz Moser, who heads one of Austria's longest established wine-making and trading houses, 40-60 per cent of the crop for 1985 has been damaged by excessive frost.

The damage could be even worse. Within six months the Austrian wine lake has dried out, Herr Moser says. Last year's harvest of 250m litres was relatively low but exceptionally high harvests in the previous two years of 490m and 370m litres had caused a surplus of stock and brought down prices.

Exports in 1984 were 50m litres, and domestic consumption at about 38 litres per head was roughly 50m litres. In 1985, production is expected to fall well below domestic consumption.

Austrian wines have remained relatively unknown in other countries. The red tends to be soft. The whites have a character of their own, drier than the run of the mill German products. Even at their best they make for easy drinking rather than the dedicated wine lover's ecstasy.

The wine business, Herr Moser says, is "the craziest business in the world." Herr Moser should know; he comes from a family of growers which includes the inventor of the high culture system, where vines are pruned to grow high above the ground, almost like miniature trees.

Herr Moser's father made his first experiments in developing the high culture system in 1928. The system brought tears from traditionalists, but today it is used by almost all Austrian growers.

It is cheaper and more efficient: 2,500 vines on one hectare can produce as much as 10,000 plants on the same area in the conventional way. In traditional vineyards five to six people are needed to work on one hectare. Now one man can cope with six hectares and the system allows easier use of picking machines, which are in fa-

creasing use.

The Moser family has been in the wine business since 1849, when Herr Anton Moser bought a cellar and vineyards from the Melk Abbey a small distance away along the Danube river, near Krems in Rohrendorf, near Krems.

These were small beginnings for Lenz Moser, the family's company name. By 1953, when it established its sales network for the province of Lower Austria, the company employed only some 40 people in its cellars and vineyards. In 1959 Moser wines were first exported to West Germany and Britain. The family has continued to acquire vineyards and expanded its wine merchant business.

Since 1980 Lenz Moser has managed the vineyards owned by the Order of the Knights of Malta at Mailberg, near the Czechoslovak border. Good climate and above average soil quality produce some of the finest Austrian white wines at Mailberg. These include the popular and light Grüner Veltliner grape and the heavier and sweeter Gewürztraminer, also produced in an area close to Lake Neusiedel near the Hungarian border.

Some red wines, less popular and generally less well regarded among Austrian wines, are also produced at Mailberg, including the Malteser Blauer Burgunder made from the pinot noir grape.

Lenz Moser has become the largest Austrian wine merchant and producer. Last year it produced 1.5m litres of wine from its vineyards and sold 1.5m litres, some 40 per cent of which were exported. Its main export markets are West Germany, Canada, Switzerland, Britain, Japan and the U.S.

Herr Moser says that Austria has not been sufficiently forceful in marketing its wines, so they remain relatively unknown compared with German wines. He says that with careful marketing some Austrian wines, especially the whites, could become as popular in many parts of the world as some of the German, French or Italian wines.

Patrick Blum

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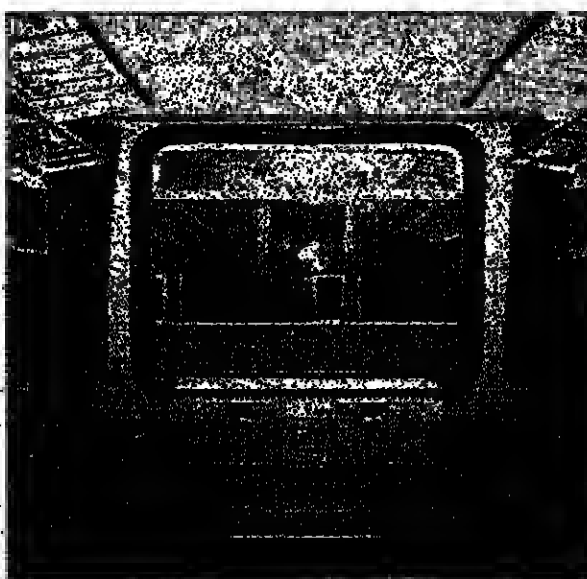
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